AGENDA ITEM AU15.3

Sony Centre Management Response to Auditor General’s Additional Information Pertaining to the Review of the Redevelopment of the Sony Centre for the Performing Arts

A. Executive Compensation

1. The CEO was hired as a consultant because at the time he was self employed and operating another business. Being hired as a consultant saved the Centre significant sums of money as the CEO was not receiving benefits and OMERS contributions were not being made on his behalf. This decision was initially taken by the Board and ultimately reversed by the Board when the CRA challenged. The Board suffered no liability and to the best of Management’s knowledge, the Board did not violate any policies that were applicable to the Board.

2. Certain payments to the CEO that were charged to the Business Plan were done so because it was the opinion of the Chair of the Finance Committee that virtually all of the CEO’s compensation was capital in nature as it dealt with the redevelopment of the Centre rather than the day-to-day operation of the business and this accounting treatment more properly reflected the nature of the work being done.
B. Transactions relating to the Chief Executive Officer

1. The Board Chair considered the arrangement with the CEO to be reasonable given the 10 year term of the contract to promote the Centre for weddings and the fact that the CEO was using his wedding to "beta test" the food service that the Centre had just engaged. The Chair did not consider the sum to be large enough to take to the Board provided that the transaction would be reflected in the audited financial statements as a related party transaction, which it was.

2. Expense Reimbursement

   a. The reimbursement of the CEO’s wife’s airfare and tickets for a trip to Ottawa was to determine if a cooking show being presented at the NAC would work in Toronto. Her knowledge of the food industry was valuable in helping to determine that this show would be too risky to perform at the Centre.

   b. The reimbursement of a second trip to see a show in Quebec City was in error and has been repaid to the Centre with interest.

   c. As stated by the Auditor General, all but two of the fundraising expenses related to the solicitation of support from the Provincial and Federal governments to fund the City Centre project. The remaining two expenses related to raising the awareness of the Provincial and City governments to the importance of the multicultural programming of redeveloped Centre to the diverse citizens of Toronto. Management was not aware of any particular City policy that applies to independent Boards that would require that these sums be funded directly by the Centre rather than by an employee reimbursement.

   d. Although the City may have a policy against the reimbursement for a staff holiday parties for its internal divisions, it is not clear that this policy strictly applies to independent Boards.

   e. Multiple reimbursements for 50% of food and beverage purchased from the Centre’s on site concession stands represents the CEO conducting quality control testing of the newly launched food and beverage service at the Centre. The CEO focused on food quality and transactional quality including personnel engagement with the customer, the time it took to process an order and also the newly implemented credit card processing operation. Only 50% was charged in each instance because the other 50% was for food and
beverages consumed by the CEO’s wife which were not proper for reimbursement.

C. Cost of Fundraising and Sponsorships

1. The amounts cited by the Auditor General as being paid to the independent contractor were paid over an approximate period of 5 years.

2. As the Auditor General cites, Management believes the commission structure is reasonable.

D. Additional Information Requested by Audit Committee