

AUDITOR GENERAL

Halifax Regional Municipality

Review of the Transfer of Box Office Operations from the Halifax Metro Centre to Trade Centre Limited©

July 2012



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Preamble

The Office of the Auditor General (OAG) raised an issue regarding the transfer of box office operations (Metro Centre Box Office/Ticket Atlantic) from the Halifax Metro Centre¹ to Trade Centre Limited in a previously released report “A Review of Concerts Held on the North Common - January 2006 to March 2011”. As a result of information identified within this report, it was determined a further review of the transfer was warranted.

The Halifax Metro Centre is an events venue located in the downtown core of the Halifax Regional Municipality (HRM). In June 1976, the decision was taken that the City of Halifax would become responsible for the ownership, operation and management of the Halifax Metro Centre. The City of Halifax took title to the property on which the Metro Centre building sits by deed dated November 23, 1977. In May 1982, the Province of Nova Scotia, the City of Halifax and Trade Centre Limited signed an agreement which provided for management of the Halifax Metro Centre by Trade Centre Limited, on behalf of the City of Halifax. It is important to note Trade Centre Limited is a provincially owned crown corporation and is a completely separate legal entity from HRM and the Halifax Metro Centre.

Throughout its history, Halifax Metro Centre operated a business line responsible for sale of tickets to Halifax Metro Centre events (box office operations). The Halifax Metro Centre received revenues and incurred expenses associated with this ticketing activity. In the late 1990s and early 2000s, Halifax Metro Centre used an electronic ticketing system “Select a Seat” to support ticket sales operations. In 2000, Trade Centre Limited (as manager of the Halifax Metro Centre) began investigating possible replacement systems, as the current system was reaching the end of its useful life. As a result of this research, Trade Centre Limited contracted for a replacement system which became operational in July 2005.

In November 2005, box office operations were rebranded from “Metro Centre Box Office” to “Ticket Atlantic”. Subsequently,

¹ Throughout this report, the OAG refers to Halifax Metro Centre in an operational context. The OAG advises the Halifax Metro Centre is in fact the physical building and has no legal standing as an entity separate from HRM. Throughout the report, when Halifax Metro Centre is used (versus HRM) it is to clarify the separate management arrangement which exists and which is separate from the management for HRM as a whole.

during the 2006/07 fiscal year, this business line was transferred (retroactive to April 1, 2006) from Halifax Metro Centre to become a business line of Trade Centre Limited. Trade Centre Limited's current management advised the item had been discussed with the then CAO of HRM and had been discussed by the Trade Centre Limited's Board of Directors on various occasions, which included four members of Regional Council, although there is no documentation available to confirm or deny these assertions. The transfer happened apparently unbeknownst to HRM business unit staff. (It is important to keep in mind Trade Centre Limited is a separate legal entity, responsible for the management of Halifax Metro Centre operations on behalf of HRM.) This transfer appears to have been initiated by Trade Centre Limited and resulted in all associated revenues and expenses being moved from Halifax Metro Centre to Trade Centre Limited. At the same time, Trade Centre Limited began paying Halifax Metro Centre a commission for tickets sold to events held at the Halifax Metro Centre (\$0.40 per ticket sold, with some exclusions for certain ticket types).

When the OAG initiated its review of this transfer, neither Trade Centre Limited nor HRM was able to provide written documentation regarding the authority under which the transfer took place, approval by HRM for the transfer or substantive analysis to support the decision process. In fact, the financial information provided by Trade Centre Limited as support for why the transfer was needed is inconsistent with financial information previously provided by Trade Centre Limited.

Unfortunately, as will be suggested in this report, a number of matters are not clear and individual recollections and views are not consistent. For example:

- Trade Centre Limited staff (current and previous) are of the view regular dialogue took place with some members of HRM's senior staff regarding the transfer of ticketing operations. Unfortunately, who may have attended such meetings on behalf of each organization is not clear.
- The timing of the suggested meetings compared with the implementation of the transfer is also not clear.
- It appears no minutes or follow-up documentation is available regarding the purported meetings.

As has been the custom of the OAG in past reports, matters are brought forward in reports, not with the intent to foster blame, rather to illustrate the consequences of actions or lack of actions, as well as the need for proper documentation and analysis of proposed courses of action and decisions. With this theme in mind, the OAG did not pursue further whether, in fact, meetings and discussions took place and who might have attended. What is clear, and as one CEO described to the OAG in discussions, “there are lessons to be learned on both sides”.

What is also clear are a number of fundamental points:

- In the end, it does not appear the transfer of the ticketing operations took place in a fully transparent and well-documented manner.
- Little, if any, documented analysis and discussion took place on the part of HRM, even after written correspondence shows HRM was aware of the change.
- There appears to be a misunderstanding or disconnect regarding the responsibilities of HRM members on the Board of Directors of Trade Centre Limited to advise Regional Council or HRM Administration on matters or decisions being made by Trade Centre Limited with respect to HRM assets.
- The formally documented minutes of Trade Centre Limited’s Board discussions show no reference to approval by the Board of the purchase of the ticketing software or transfer of Ticket Atlantic to Trade Centre Limited, although documentation does demonstrate management presented Trade Centre Limited’s preferred vendor for ticket sales software to the Board in May 2004.

Many of the matters discussed in this report may be in whole or in part duplicated from the “Review of Concerts Held on the North Common - January 2006 to March 2011”². In the interests of clarity and completeness, these issues may be repeated within this report as necessary.

As work on this report progressed and to understand fully the issues which may have existed at the time of the so-called “transfer” of ticketing operations to Trade Centre Limited, questions repeatedly

² <http://www.halifax.ca/auditorgeneral/documents/WebOKReviewConcertsonNorthCommonJune11.pdf>

arose which took the OAG out of the original scope and objectives of the report.

As was found with preparation of the “Review of Concerts Held on the North Common – January 2006 to March 2011” report, the focus of understanding quickly became complex for a number of reasons, including:

- the significant number of people at HRM who were either involved or ought to have been involved
- the seniority of many of the people involved
- the so-called “culture” of HRM at the time
- the level and approach to governance at HRM at the time
- the accountability model in place at the time
- the information (often contradictory) provided to HRM with respect to the Halifax Metro Centre operations, including box office operations
- the lack of clearly defined and HRM-approved business plans for the Halifax Metro Centre with yearly performance benchmarks
- the lack of clearly defined and agreed upon formulas for cost allocations (in advance of the allocation being made) between Trade Centre Limited and the Halifax Metro Centre. For example, what proportion of time should the Halifax Metro Centre expect from the President and CEO of Trade Centre Limited and hence what is a reasonable basis for allocation of the salary for that position, what is the appropriate number of sales and marketing staff needed to generate the revenue reported for Halifax Metro Centre, or what portion of HR, Finance and IT staff should be allocated to the Halifax Metro Centre given HRM has robust resources in these areas?
- the lack of organizational knowledge within HRM of what an efficiently and effectively run Halifax Metro Centre business model should look like
- questions regarding what the financial results should be for box office operations if the operations are efficient and effective.

As these efficiency and effectiveness issues are significant, complex and outside the scope and objectives of this project, the OAG contemplates a separate project will be undertaken reviewing

HRM's assessment of the efficiency and effectiveness of the Halifax Metro Centre operations, the appropriateness of related cost sharing arrangements with Trade Centre Limited and if there are, for example, potential changes that could be reasonably implemented within all administrative functions that would utilize existing HRM staff resources and reduce the costs allocated to the Halifax Metro Centre from Trade Centre Limited for these functions.³

Objectives

The objective of this project was to review the transfer of box office operations from Halifax Metro Centre to Trade Centre Limited in order to assess if the transfer was:

- appropriately authorized
- supported by reasonable analysis and documentation
- operating as purported, and
- in HRM's best interests.

The OAG was also interested in understanding what approval processes/policies were in place within HRM for the change in "ownership" of business line operations, if these approvals were clearly communicated to Trade Centre Limited and if the appropriate approvals were sought and received when the change took place.

In addition, the project included a review of the ticket commission arrangement currently in place, to allow comment around whether the arrangement implemented by Trade Centre Limited is reasonable, provides best value for HRM and is operating as indicated.

Scope

This project :

- reviewed the process used to move a business line (box office operations) from one legal entity to another
- sought to understand the commission model implemented in 2006/07

³ Note: For purposes of clarity, this report and the accompanying recommendations were written referencing the situation currently in place with Trade Centre Limited acting as manager for the Halifax Metro Centre. The OAG recognizes there are other possible arrangements which could occur in the future and feel the majority of the recommendations contained in the report would continue to apply if the management for the Halifax Metro Centre were to change.

- analyzed data related to the operation of the ticket sales function from 2003/04 to 2011/12 in order to estimate the financial results had the organizational change not occurred. This result was compared to ticket commissions received.

To the extent possible, the OAG examined any supporting analysis as well as the approvals sought and received at the time the transfer took place.

In addition, the OAG examined supporting information available surrounding the decision to acquire the new ticketing system as this seemed central to the issue of the transfer.

Methodology

The OAG reviewed the following information:

- supporting documentation for the decision to purchase the upgraded software system
- the license/purchase agreement for the current ticketing software
- revenues and expenses associated with box office operations from 2003/04 to 2011/12
- available correspondence and analysis supporting the change in structure and introduction of the ticket commission payments.

Research was conducted to gain an understanding of ticket selling operations, business drivers, cost structures and commission agreements used in the industry. Interviews were conducted, where warranted, to supplement documentation provided and to, for example, aid in our understanding of standard and current business practices in the ticketing business.

Many items which the OAG might have wished to review as part of the methodology were simply not available; therefore, there were limitations on the preferred methodology due to this lack of documentation. For example, a copy of the commission agreement, policies and procedures related to box office operations, or the documented approval for the change in ownership were simply not available or could not be located.

Summary of Recommendations

2.0.1 The OAG recommends HRM establish controls to ensure Trade Centre Limited staff follow HRM's Procurement Policy Administrative Order #35, or any substituted policies and procedures, when acting as the manager for and procuring items on behalf of the Halifax Metro Centre.

2.1.1 The OAG recommends HRM require Trade Centre Limited submit a request to implement any significant change to the Halifax Metro Centre business model to HRM for approval, in advance of taking any steps towards implementation. The request for approval should include a business case identifying the impact to the Halifax Metro Centre (hence HRM) of the change and an evaluation of the anticipated change including a required section on risk.

This recommendation reinforces Recommendations 8.2.10.1, 8.2.10.6, 8.2.10.7 from the report "A Review of Concerts Held on the North Common – January 2006 to March 2011", implementation of which the OAG understands is in progress. Due to the circumstances which have given rise to these recommendations, the OAG feels compelled to emphasize haste in implementation in order to ensure HRM's interests are protected.

2.2.1 The OAG recommends HRM establish clear and specific policies regarding ongoing operations and capital expenditures within the approved business model for the Halifax Metro Centre which Trade Centre Limited can undertake, as well as the level of communication and approval required, including limits to authority.

This should provide a clear identification of Trade Centre Limited's role and responsibilities for the Halifax Metro Centre (and to HRM), and should provide a delineation regarding operations of the Halifax Metro Centre from those of Trade Centre Limited.

Recommendation 8.2.10.7 of the OAG's previous report "A Review of Concerts Held on the North Common – January

2006 to March 2011” also addressed this recommendation. The OAG understands HRM is in the process of implementing the recommendation.

- 2.3.1 The OAG recommends Trade Centre Limited develop documented signing authorities and levels specifically for the Halifax Metro Centre for review and approval by HRM.
- 2.4.1 The OAG questions why HRM was not named as the licensee in the final signed agreement with Vendor X as originally contemplated by the RFP. The OAG suggests HRM Administration review all existing contracts for services provided to the Halifax Metro Centre to determine if there are other instances where Trade Centre Limited is named on an agreement for services normally associated with the Halifax Metro Centre. If so, these agreements should be amended so the Halifax Metro Centre is named after the appropriate approvals are obtained.
- 3.0.1 It is not the intent of this report to delve into the responsibilities and roles of HRM appointed representatives to various boards and commissions, however, the OAG sees this as an area of confusion within HRM, and potentially within the Boards of Directors where HRM’s representatives serve. As a result, the OAG recommends HRM provide specific written clarification outlining what the expected roles and responsibilities are for their representatives serving on a Board of Directors on behalf of HRM.
- 3.0.2 Given there are many levels of management and responsibility within both HRM and Trade Centre Limited, the possibility for a lack of communication or miscommunication to take place is high, and as ongoing HRM responsibility rests with its Administration on behalf of Regional Council, the OAG recommends HRM consider requesting an HRM staff member be appointed to the Trade Centre Limited’s Board of Directors as an ex officio member. The OAG further recommends a senior staff person such as the Director of Finance or the Director of Community and Recreation Services might be appropriate.

- 3.0.3 The OAG recommends HRM assess if the transfer of box office operations could have been executed without documented approval (at appropriate levels). If transfer and ownership questions remain, the OAG recommends HRM Administration pursue the appropriate courses of action to ensure HRM interests have been and are protected.
- 3.0.4 The OAG recommends HRM clarify and document the role and authority of Trade Centre Limited's Board of Directors with respect to Halifax Metro Centre activities, specifically with respect to Recommendations 2.1.1 and 2.2.1.
- 3.0.5 Given the nature of the management agreement and the complexity of operations related to the Halifax Metro Centre, the OAG recommends HRM review and formally document the governance structure for this arrangement. During this review, the OAG recommends HRM consider if the current structure of having minority representation on the Board of Directors for Trade Centre Limited is the most efficient and effective governance structure.
- Given this, the OAG would recommend HRM (in consultation with Trade Centre Limited) consider the option of no HRM representation on the Board of Directors, but with a very strict process of budget and operating results oversight by HRM Administration, as well as restricted levels of authority for Trade Centre Limited staff. In other words, HRM would expect a much higher level of Trade Centre Limited accountability towards agreed upon performance targets.
- 3.1.1 The OAG recommends HRM implement a formal communications protocol with Trade Centre Limited in order to ensure a timely response to queries regarding the management of Halifax Metro Centre operations.
- 3.1.2 The OAG recommends HRM Administration complete a full and thorough review of how HRM deals internally with the management of the Halifax Metro Centre, including direct responsibility for issues which may arise, and ensure these

policies and procedures are appropriately documented.

- 3.1.3 While it is outside the scope of this project, the OAG suggests the policies and procedures developed from Recommendation 3.1.2 above should be adapted and made applicable to any other facility which is owned by HRM and managed on its behalf by a third party, if they do not already exist.
- 3.2.1 Based on the lack of clarity regarding previous and current financial contributions of the box office operations business line, the OAG recommends HRM undertake a full and detailed review of the financial reporting of Halifax Metro Centre results, with specific emphasis on box office contributions.
- 3.2.2 Although outside the scope of this project, the variances noted in Section 3.2 raise concerns for the OAG regarding HRM's understanding of the overall financial reporting for the Halifax Metro Centre. As such, the OAG recommends HRM undertake a full and detailed review of the financial results of operations of the Halifax Metro Centre from 2004/05 to current to gain a more complete understanding of costs actually incurred as well as allocated, and the overall results and various trends in operations. The work should be completed by an individual with specific expertise in these types of analysis.
- 3.2.3 In the future, as would be suggested in any arms-length business transaction, the OAG recommends HRM Administration complete a full and independent evaluation of any business case provided by Trade Centre Limited proposing changes to business models, to ensure the completeness and accuracy of any information provided.
- 3.2.4 The OAG recommends, when completing Recommendations 3.2.1 and 3.2.2, HRM also confirm the amounts Halifax Metro Centre was charged in relation to the Vendor X system and the expanded business model. If there were, in fact, any duplicate or non-specific charges incurred by Halifax Metro Centre, HRM should seek to

recover these from Trade Centre Limited.

- 3.3.1 On the basis the present ticketing arrangement continues, the OAG recommends HRM negotiate a contract with Trade Centre Limited governing commission payments for tickets to Halifax Metro Centre events. This negotiated commission structure should follow from a full and robust assessment of all possible structures (i.e. including possibilities such as minimum charges or profit sharing, with the best value to HRM being the goal) and reflect the substantive business received from the Halifax Metro Centre. It should not simply be an exercise in documenting the current arrangement.
- 3.3.2 Given the circumstances which gave rise to the existing arrangement, the OAG recommends any revised commission calculation be applied, to the extent possible, retroactively to April 1, 2006.
- 3.3.3 The OAG recommends HRM's Legal Services be fully involved in the drafting of any agreement related to commissions payable to the Halifax Metro Centre to ensure HRM's interests are fully protected.
- 3.3.4 The OAG recommends HRM investigate all ticketing options available to the Halifax Metro Centre. On the basis Trade Centre Limited is a supplier in or of this business, the OAG recommends their participation be minimal in order to ensure impartiality and transparency.
- 3.5.1 Although outside the scope of this project, the following recommendation arises due to work done within the scope of the project.

The OAG suggests HRM agree, as part of the ongoing changes to the Memorandum of Understanding governing Trade Centre Limited's management of the Halifax Metro Centre, which specific costs incurred by Trade Centre Limited can be allocated to the Halifax Metro Centre and the calculation to be used to arrive at the amount. HRM's Legal Services should be fully involved in this negotiation so

any resulting agreement is properly documented in such a way as to ensure HRM's interests are protected.

- 4.0.1 The OAG recommends ensuring there is an agreement with Trade Centre Limited specifying Trade Centre Limited's understanding that the Halifax Metro Centre is an HRM entity and documents Trade Centre Limited's accountability to HRM for all decisions made regarding the operations of the Halifax Metro Centre.
- 4.0.2 The OAG recommends HRM review the authority level for its CAO and determine if a change is needed so that divesting of an asset such as a line of business, requires, for example, Regional Council's approval or at a minimum, specific written approval.
- 4.0.3 Although outside the scope of this project, the following recommendation arises due to work done within the scope of the project.

Given many of the issues raised during the preparation of this report, the OAG recommends HRM Administration consider engaging an external review of Halifax Metro Centre operations to ensure it is being managed to derive the greatest return for HRM.

- 4.1.1 The OAG recommends HRM Administration maintain one master file of all relevant information relating to Trade Centre Limited's operation of the Halifax Metro Centre. This file should be maintained by a particular staff position and not be tied to an individual staff member. The OAG also recommends the file be organized so that the information relevant to a particular issue is easy to identify and locate within the file.
- 4.1.2 The OAG recommends all communications around major changes or initiatives with respect to business lines or business models, be documented by HRM and retained in order to support and explain the decision(s) made, if necessary. In addition, a well-documented file will allow for evaluation in the future of actual vs. expected results. This

will also allow the results of past decisions to improve the evaluation process for future decisions.

- 4.2.1 The OAG recommends HRM consider if Trade Centre Limited had conflicting business interests related to the transfer of box office operations and if they acted with the appropriate level of duty of care or fiduciary duty, and if not, determine what possible recourses exist for HRM.

Detailed Findings and Recommendations

1.0 Background/Timeline

In order to provide background on the matter as the OAG has come to understand it, the following is a timeline of critical events related to the operation of the Halifax Metro Centre and its box office. The report will review specific areas of concern in more detail in subsequent sections.

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| June 1976 | The decision was taken that the City of Halifax would become responsible for the ownership, operation and management of the Halifax Metro Centre. |
| May 1982 | <p>Agreement signed between Province of Nova Scotia, City of Halifax and Trade Centre Limited providing for the management of Halifax Metro Centre by Trade Centre Limited on behalf of the City of Halifax.</p> <p>Over the years, Halifax Metro Centre operated a business line responsible for selling tickets to its events (box office operations). Trade Centre Limited became responsible for managing this on HRM's behalf along with all other Halifax Metro Centre operations as a result of this agreement.</p> |
| 2000 | Trade Centre Limited staff began researching possible new ticketing systems. |
| 2002 | Trade Centre Limited received notice the "Select a Seat" system (the ticketing system in use at that time) would not be supported after 2004. |
| March 2003 | Trade Centre Limited issued a request for proposal for ticketing software and hardware for the Halifax Metro Centre. |
| April/May 2003 | The RFP closed and responses were evaluated by a team of staff from Trade Centre Limited. |

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| November 2003 | Trade Centre Limited's Board of Directors was advised management was evaluating two software systems for ticketing operations. |
| May 2004 | Trade Centre Limited's preferred vendor for ticket sales software was presented to Trade Centre Limited's Board of Directors. |
| May 2004 | Trade Centre Limited's then President and CEO verbally approved the preferred vendor and authorized management to begin contract negotiations. |
| December 2004 | Trade Centre Limited staff (VP of Operations) signed a master software and services agreement contract. The parties named in the agreement are Vendor X and Trade Centre Limited. Neither Halifax Metro Centre nor HRM are named in the agreement. |
| January 2005 | The Trade Centre Limited's Board of Directors received an update on the new ticketing system for Halifax Metro Centre including being advised Trade Centre Limited had entered into a five-year agreement with Vendor X to implement a new ticketing system at Halifax Metro Centre. |
| March 2005 | The 2005/06 Business Plan for Trade Centre Limited was submitted to Trade Centre Limited's Board of Directors and included a section on the 2005/06 priorities for Halifax Metro Centre. The number one priority in this section was an expansion of Halifax Metro Centre's box office capabilities which was planned to be achieved through implementation of a new software system and the launch of new services by the end of the second quarter of the fiscal year. |
| July 2005 | System went live. |

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| June 2006 | <p>Trade Centre Limited's management provided their Board of Directors with a report comparing current results to the 2005/06 Business Plan. Under the Unit Highlights, it indicated the expansion of Halifax Metro Centre's Box Office capabilities was achieved through the implementation of a new business unit, Ticket Atlantic, officially launched in November 2005. Further on in the same section, there is a sub-section titled "Ticket Atlantic" which states Ticket Atlantic was established as a separate operating unit of Trade Centre Limited. This is interesting as the change in ownership was not reflected in the financial statements until 2006/07.</p> |
| August 2006 | <p>HRM staff, in a meeting with Trade Centre Limited staff, question where the revenues and expenses relating to ticketing operations were being reported in Halifax Metro Centre financial information, as there appeared to have been a change. Trade Centre Limited staff advised HRM staff box office operations were transferred to Trade Centre Limited effective April 1, 2006.</p> <p>HRM staff advised HRM Senior Management of their conversation with Trade Centre Limited staff regarding the transfer of box office operations.</p> |
| April 2007 | <p>HRM's CAO wrote to Trade Centre Limited with respect to several items, including concerns regarding the transfer of Halifax Metro Centre's box office operations.</p> |
| July 2007 | <p>The then CAO for HRM approved the Halifax Metro Centre's audited financial statements for 2006/07 (year the transfer was effected).</p> |

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| July 30, 2008 | HRM's then CAO wrote to Trade Centre Limited's then President and CEO with respect to several items, including a follow-up indicating he had not received a response to the concerns raised in his April 2007 letter regarding the transfer of Halifax Metro Centre's box office operations. In the letter dated July 30, 2008, HRM's CAO advised he would be in a position to approve the 2007/08 audited financial statements once he had received a response to his concerns regarding ticketing operations. |
| July 31, 2008 | Trade Centre Limited's then President and CEO responded to HRM's letter of July 30, 2008 and included information showing poor financial results for ticketing operations for several years, including the year the new system was introduced, and indicated the transfer was initiated due to the apparent need for a new approach to operations. The financial information included in the response from the then President and CEO of Trade Centre Limited contained significant differences from the financial information previously provided to HRM by Trade Centre Limited staff with respect to box office operations. |
| 2006/07-current | Event ticketing for Halifax Metro Centre continues to take place through "Ticket Atlantic", now a division of Trade Centre Limited. Halifax Metro Centre receives a commission of \$0.40 per ticket sold to Halifax Metro Centre events (with exclusions). |

2.0 Acquisition of New Ticketing Software

The RFP title listed the Halifax Metro Centre as a division of Trade Centre Limited. Neither the Halifax Metro Centre, nor its ticketing operations were a division of Trade Centre Limited at that time.

Based on information obtained by the OAG, it appears the catalyst for the transfer of box office operations from Halifax Metro Centre to Trade Centre Limited was the needed replacement of event ticketing software.

In 1998, Halifax Metro Centre's existing ticketing system, "Select a Seat" was purchased by Tickets.com. Trade Centre Limited staff advised the OAG they were concerned this would result in the software not being supported in the future. As a result, in 2000 Trade Centre Limited staff began researching potential new systems. In 2002, Trade Centre Limited did in fact receive notification the "Select a Seat" system would not be supported effective 2004.

In March 2003, Trade Centre Limited formalized their search and issued a request for proposal titled "Request for Proposal (RFP) for The Provision of Ticketing Software and Hardware at Halifax Metro Centre a division of Trade Centre Limited." It is concerning to note the title lists the Halifax Metro Centre as a division of Trade Centre Limited. Neither the Halifax Metro Centre, nor its ticketing operations were a division of Trade Centre Limited at that time.

When the RFP closed, Trade Centre Limited had received three "qualified" proposals (as identified by an evaluation team from Trade Centre Limited). These proposals were further evaluated by a team of staff from Trade Centre Limited and a successful proposal was selected.

In November 2003, Trade Centre Limited received an unsolicited proposal from a newly formed Canadian software company; Trade Centre Limited staff made a decision to research the company and review the proposal to determine if it would be beneficial to re-issue the Request for Proposal.

Ultimately, Trade Centre Limited staff decided not to re-open the original Request for Proposal process and in May 2004, the evaluation team's suggested approach was presented to Trade Centre Limited's Board of Directors.

The then President and CEO of Trade Centre Limited apparently verbally approved Vendor X as the preferred vendor.

The contract was signed (by the VP Operations for Trade Centre Limited) in December 2004.

Following a presentation to the Trade Centre Limited's Board, the then President and CEO of Trade Centre Limited apparently verbally approved the preferred vendor and gave authority for management to begin contract negotiations; the contract with Vendor X was signed (by the VP Operations for Trade Centre Limited) in December 2004 with an effective date of May 31, 2005.

The signed contract was presented to the Trade Centre Limited's Board of Directors as an information item at their January 2005 meeting. The system became operational in July 2005.

As the Halifax Metro Centre is a municipally owned organization, managed on HRM's behalf by a provincial crown corporation (Trade Centre Limited), it seems reasonable to assume Trade Centre Limited's management would be bound by the procurement policies of at least one, if not both, organizations. However, in reviewing the procurement process used to acquire the ticketing software, it is not clear which, if either, of the procurement processes Trade Centre Limited used. When senior Trade Centre Limited staff were asked whose procurement process was used, they advised they did not know and were unable to determine which process was used.

Recommendation:

- 2.0.1 The OAG recommends HRM establish controls to ensure Trade Centre Limited staff follow HRM's Procurement Policy Administrative Order #35, or any substituted policies and procedures, when acting as the manager for and procuring items on behalf of the Halifax Metro Centre.

Management Response:

Agree – A draft interim management agreement has been developed outlining the relationship between the parties, specific levels of authority, reporting requirements and performance measures, including purchasing policy and processes to be followed. This document will be brought forward to Audit and Finance Standing Committee for review in the coming months.

2.1 Changes to the Business Model

Based on documentation provided by Trade Centre Limited staff, it is apparent the evaluation team reviewed the total cost and functionality of all the proposed software systems. However, it is also apparent the Vendor X proposal spoke to growth in the ticketing business due to what can only be assumed by the OAG as a contemplated change to the business model in place for Halifax Metro Centre. The contemplated change also intended becoming the ticket sales agent for events held at venues outside the Metro Centre (which are not connected with the Metro Centre – a “Regional” concept). The Board of Directors for Trade Centre Limited were briefed on this intended change; however, the extent of the plan and the implications were apparently not communicated (formally) to HRM.

The proposal by Vendor X (dated Oct 15, 2004) spoke to an intention to expand the event ticketing business.

The revised proposal indicates, for a five-year partnership, the projected return on investment to the Halifax Metro Centre would be \$5,900,000, based on the expanded business model.

There appears to have been no clear discussions with HRM regarding a plan to significantly change the business model.

In fact, the financial analysis attached to a revised proposal by Vendor X (dated October 15, 2004) responds to an intention to expand the event ticketing business outside the Halifax Metro Centre. The revised proposal indicates for a five-year partnership, the projected return on investment to the Halifax Metro Centre would be \$5,900,000, based on the expanded business model⁴. This leads the OAG to conclude Trade Centre Limited was planning a change in the business model for box office operations. However, as noted previously, there appears to have been no clear discussions with HRM regarding any plan to significantly change the business model, which is of great concern to the OAG.

Recommendation:

- 2.1.1 The OAG recommends HRM require Trade Centre Limited submit a request to implement any significant change to the Halifax Metro Centre business model to HRM for approval, in advance of taking any steps towards implementation. The request for approval should include a business case identifying the impact to the Halifax Metro Centre (hence HRM) of the change and an evaluation of the anticipated change including a required section on risk.

This recommendation reinforces Recommendations

⁴ This figure was provided by Vendor X as part of their proposal and has not been reviewed or verified by the OAG.

8.2.10.1, 8.2.10.6, 8.2.10.7 from the report “A Review of Concerts Held on the North Common – January 2006 to March 2011”, implementation of which the OAG understands is in progress. Due to the circumstances which have given rise to these recommendations, the OAG feels compelled to emphasize haste in implementation in order to ensure HRM’s interests are protected.

Management Response:

Agree – As noted above, a draft interim management agreement has been developed outlining the relationship between the parties, specific levels of authority, reporting requirements and performance measures. This document will be brought forward to Audit and Finance Standing Committee for review in the coming months.

2.2 Lack of HRM Involvement in or Approval of System Acquisition

At no point in the process does there appear to have been formal documented communication with HRM Administration.

Based on documentation made available to and reviewed by the OAG with respect to the acquisition of replacement software for event ticket sales, at no point in the process does there appear to have been formal documented communications with HRM Administration.

It also appears at no point was either the proposed or signed agreement ever presented to HRM Administration or Regional Council, as many would have expected given the title of the RFP. This is concerning as the minutes from the Trade Centre Limited Board meeting held January 25, 2005 state the ticketing system was for Halifax Metro Centre. Given the OAG has received no specific information to suggest when Trade Centre Limited made the decision to contract for the software in its own name, and given how vital ticketing operations were to the Halifax Metro Centre, it would be reasonable to assume the ticketing system agreement would name Halifax Metro Centre as a principal to or at least a party to the agreement and would be approved by HRM. It is the understanding of the OAG other capital improvements for Halifax Metro Centre were approved by HRM (which is confirmed by Trade Centre Limited's then President and CEO in an e-mail dated May 17, 2007 to the then Trade Centre Limited's VP Operations).

There is no documentation from HRM authorizing the purchase and there were no HRM staff involved in the review of the proposals submitted.

After enquiries from the OAG, neither HRM's or Trade Centre Limited's management were able to locate documentation from HRM authorizing the proposed purchase or how the replacement of Halifax Metro Centre ticketing software was going to take place (if, for example, Trade Centre Limited was to license and then charge Halifax Metro Centre for its use) and the OAG was advised there were no HRM staff involved in the review of the proposals submitted. In discussions with Trade Centre Limited staff, they indicated HRM had been approached about replacing the software system and HRM indicated it did not have the financial capacity to support the acquisition at the time. Again, there was no documentation provided to the OAG to support this comment or to support the assertion HRM was even aware the process was being undertaken.

The process used by Trade Centre Limited, as it has been presented, raises a number of questions for the OAG.

As a result, the OAG questions why this process of replacing the ticketing software, which was part of Halifax Metro Centre operations, was done in a manner which appears to be different from the norm or the expected process.

The process used by Trade Centre Limited, as it has been presented, raises a number of questions for the OAG:

- Why would the Trade Centre Limited have commenced the process for acquisition of software (with significant financial commitment attached) without the express consent of the asset owner?
- Why is there no documentation available to identify what, if any, discussions took place with HRM Administration?
- Why were financial models supporting the business case for the system ultimately purchased never presented to HRM Management? It would seem a different service delivery model was contemplated as the purchased system was clearly capable of handling a much larger volume and through more elaborate means than the system being replaced. The question around whether the Metro Centre in fact needed the power and features of the acquired system does not appear to have been formally addressed or documented.
- The OAG questions the authority of the President and CEO of Trade Centre Limited to authorize the purchase of items of this significance and financial commitment for the Halifax Metro Centre. The authority or limit on authority of the Trade Centre Limited President and CEO in relation to Halifax Metro Centre was not addressed in the existing agreement for the Halifax Metro Centre.

The apparent lack of communication with, and approval from, HRM regarding a major initiative undertaken by Trade Centre Limited on HRM's behalf is concerning.

Recommendation:

- 2.2.1 The OAG recommends HRM establish clear and specific policies regarding ongoing operations and capital expenditures within the approved business model for the Halifax Metro Centre which Trade Centre Limited can

undertake, as well as the level of communication and approval required, including limits to authority.

This should provide a clear identification of Trade Centre Limited's role and responsibilities for the Halifax Metro Centre (and to HRM), and should provide a delineation regarding operations of the Halifax Metro Centre from those of Trade Centre Limited.

Recommendation 8.2.10.7 of the OAG's previous report "A Review of Concerts Held on the North Common – January 2006 to March 2011" also addressed this recommendation. The OAG understands HRM is in the process of implementing the recommendation.

Management Response:

Agree – As noted above, a draft interim management agreement has been developed outlining the relationship between the parties, specific levels of authority, reporting requirements and performance measures. This document will be brought forward to Audit and Finance Standing Committee for review in the coming months.

2.3 Levels of Approval and Signing Authorities

It appears neither HRM staff nor Regional Council was involved with or approved this major purchase/contract.

Based on information obtained by the OAG, it appears neither HRM staff nor Regional Council were involved with or approved this major purchase/contract. This calls into question what the accountabilities were for Trade Centre Limited acting as manager of an external organization. It also raises questions of what the approved levels of signing authorities were for Trade Centre Limited, in their role as manager for Halifax Metro Centre and if these signing authorities were approved by HRM.

As part of this project, the OAG requested a copy of the Halifax Metro Centre's documented signing authorities (and levels). Trade Centre Limited staff advised they were unable to provide a copy of what existed at the time the software was licensed and the transfer took place. The current procurement policy for Trade Centre Limited was provided but it does not provide a distinction for purchases made on behalf of Halifax Metro Centre from those for Trade Centre Limited. In addition, there is no documentation showing HRM approved the policy as it relates to the Halifax Metro Centre.

While the OAG acknowledges Trade Centre ultimately contracted for the new software, clearly the RFP contemplated the Metro Centre as being a party to any agreement; this would be a logical conclusion as in some form the Halifax Metro Centre would be replacing its ticketing software (even if it was to rely on access from Trade Centre Limited).

Should the original RFP been followed through on, HRM could have become responsible for a commitment in the order of at least \$1,140,000 over the original five-year term.

This raises a further control issue, as HRM has very defined policies around authorities to encumber the Municipality. Should the original RFP been followed through on, HRM could have become responsible for a commitment in the order of at least \$1,140,000 over the original five-year term.

Commitments for operating and capital expenditures are approved annually by Regional Council. Management is only authorized to expend funds as described and approved in the budget documents and subject to purchasing policies as found in Procurement Policy Administrative Order #35.

This policy allows the CAO to approve a purchase up to \$500,000 provided it has gone through the prescribed Request for Proposal process. Any transaction which has been gone through a public procurement process and is considered a sole source contract is subject to a financial limit of \$50,000.

Also of significant concern is the apparent verbal approval provided by Trade Centre Limited's then President and CEO. Documenting the approval of purchases and contractual commitments is a reasonable and expected business practice. It is concerning to the OAG that Trade Centre Limited did not have this as a standard policy or practice.

Recommendation:

- 2.3.1 The OAG recommends Trade Centre Limited develop documented signing authorities and levels specifically for the Halifax Metro Centre for review and approval by HRM.

Management Response:

Agree – In conjunction with finalizing the interim management agreement with Trade Centre Limited, HRM will review and approve appropriate signing authorities with Trade Centre Limited staff.

2.4 Parties Named in the Software Licensing Agreement

When reviewing the licensing agreement Trade Centre Limited signed with Vendor X in December 2004, the OAG noted although ticketing operations were part of the Halifax Metro Centre at the time (in fact until April 2006), Trade Centre Limited was the party named in the licensing agreement. The OAG has to question the appropriateness of the decision by Trade Centre Limited, an organization engaged by HRM to manage an asset on its behalf, to take ownership of the agreement and why in fact it caused HRM (through the Halifax Metro Centre) to pay for the first year of operations.

The OAG firmly believes it would not be unreasonable for HRM to expect an organization contracted to manage a major asset on its behalf would, in all of its actions, clearly demonstrate it holds HRM's interests with respect to the asset, above its own.

Recommendation:

2.4.1 The OAG questions why HRM was not named as the licensee in the final signed agreement with Vendor X as originally contemplated by the RFP. The OAG suggests HRM Administration review all existing contracts for services provided to the Halifax Metro Centre to determine if there are other instances where Trade Centre Limited is named on an agreement for services normally associated with the Halifax Metro Centre. If so, these agreements should be amended so the Halifax Metro Centre is named after the appropriate approvals are obtained.

Management Response:

Agree – Under the direction of HRM's Chief Financial Officer, HRM will ensure that the reviews identified throughout the Auditor General's report are undertaken and appropriate action taken.

3.0 Transfer of Box Office Operations from Halifax Metro Centre to Trade Centre Limited

Apparently, HRM was not formally advised of having divested of a business line; there was limited information provided to support the rationale for the change and what was received was not provided until July 31, 2008, more than 2 years after the transfer took effect.

HRM staff advised the OAG they were unaware of the change until after it had been implemented.

Effective April 1, 2006, Trade Centre Limited transferred box office operations (responsible for the sale of event tickets) from Halifax Metro Centre to Trade Centre Limited. It is unclear what, if any communications took place between Trade Centre Limited and HRM regarding the intention to transfer box office operations.

Apparently, HRM was not formally advised of having been divested of a business line and there was limited information provided to support the rationale for the change when it was requested by HRM (what was received was not provided until July 31, 2008, more than 2 years after the transfer took effect). Additionally, it appears there was no documented approval requested or received from HRM authorizing the change. In fact, HRM staff advised the OAG they were unaware of the change until after it had been implemented. This situation raises a number of concerns for the OAG regarding the process by which Trade Centre Limited moved a business line from one legal entity (HRM-Halifax Metro Centre) to a completely separate legal entity (Trade Centre Limited), which will be explored in the following sections.

In an internal memo dated August 21, 2006, HRM staff stated during a meeting held on August 2, 2006 with Trade Centre Limited staff regarding the Halifax Metro Centre, they had questioned where ticket sale revenues and expenses were within the management financial information they were presented with, as there appeared to have been a change. Based on this query, Trade Centre Limited staff apparently advised HRM staff of the effective change in ownership of box office operations for Halifax Metro Centre events. Trade Centre Limited staff apparently indicated the box office business line was transferred, retroactive to April 1, 2006.

HRM staff advised the OAG this transfer took place without any prior notice to HRM. Based on the documentation provided to the OAG, there is no indication Trade Centre Limited staff raised the issue with HRM staff at all, and according to HRM staff, only discussed it once HRM staff noticed the change and brought the issue forward.

The OAG was advised by the then President and CEO of Trade Centre Limited he had delegated responsibility for management of a possible transfer to the then V.P. Operations who was responsible for managing the Halifax Metro Centre operations on behalf of Trade Centre Limited.

At the time, when questioned by HRM staff, Trade Centre Limited staff apparently identified the change as having been approved by the Trade Centre Limited Board, which had HRM representation. There has, however, been no documentation provided to support this assertion.

Role of HRM Representation on Trade Centre Limited's Board of Directors

Throughout discussions with Trade Centre Limited senior staff regarding the approval for the move/disposition of the ticket sales business by Halifax Metro Centre to Trade Centre Limited, there was a repeated assertion the transfer was approved by Trade Centre Limited's Board of Directors. Trade Centre Limited staff's contention is this was effectively HRM approval as there was representation from Regional Council on the Trade Centre Limited's Board of Directors. The OAG was not able to obtain any documentation to support the assertion Trade Centre Limited's Board of Directors approved the transfer, however, the suggestion it was the proper approval raises three questions:

1. What is the authority of Trade Centre Limited's Board of Directors to implement significant changes in Halifax Metro Centre operations (an HRM asset)?
2. What is the role of HRM representatives on the Board of Directors for Trade Centre Limited? Trade Centre Limited's senior staff advised the OAG, HRM representatives are bound by confidentiality to Trade Centre Limited and are not, in fact, allowed to share Board discussions with HRM. If this is correct, it would appear HRM representatives would not be acting on HRM's behalf when serving on a Board of Directors.

Current opinion related to this issue might suggest members of a Board of Directors owe their first allegiance

What is the authority of Trade Centre Limited's Board of Directors to authorize significant changes in Halifax Metro Centre operations (an HRM entity)?

What is the role of the HRM representatives on the Board of Directors for Trade Centre Limited?

to the board on which they serve, not to those who appointed them. This supports Trade Centre Limited's assertion of the need for confidentiality of the discussions within the Board of Directors, but highlights issues around Trade Centre Limited using briefings of their Board of Directors as HRM's governance and approval regarding operations of the Halifax Metro Centre.

3. What is the authority of HRM's representatives on Trade Centre Limited's Board of Directors to authorize significant changes to Halifax Metro Centre on behalf of HRM?

Recommendations:

- 3.0.1 It is not the intent of this report to delve into the responsibilities and roles of HRM appointed representatives to various boards and commissions, however, the OAG sees this as an area of confusion within HRM, and potentially within the Boards of Directors where HRM's representatives serve. As a result, the OAG recommends HRM provide specific written clarification outlining what the expected roles and responsibilities are for their representatives serving on a Board of Directors on behalf of HRM.

Management Response:

Agree – HRM's Legal Services business unit will review and document the roles and responsibilities expected of representatives serving on a Board of Directors on behalf of HRM. These roles and responsibilities will also be reviewed with Councillors as part of the new Council training in the fall.

- 3.0.2 Given there are many levels of management and responsibility within both HRM and Trade Centre Limited, the possibility for a lack of communication or miscommunication to take place is high, and as ongoing HRM responsibility rests with its Administration on behalf of Regional Council, the OAG recommends HRM consider requesting an HRM staff member be appointed to the Trade Centre Limited's Board of Directors as an ex officio member. The OAG further recommends a senior staff person such as the Director of Finance or the Director of

Community and Recreation Services might be appropriate.

Management Response:

Agree – HRM's Legal Services business unit will review and discuss options for HRM staff to take a more proactive role in Trade Centre Limited's Board discussions as they relate to the operations and management of the Halifax Metro Centre. The resulting board structure will be embedded in the management agreement.

- 3.0.3 The OAG recommends HRM assess if the transfer of box office operations could have been executed without documented approval (at appropriate levels). If transfer and ownership questions remain, the OAG recommends HRM Administration pursue the appropriate courses of action to ensure HRM interests have been and are protected.

Management Response:

Agree – Under the direction of HRM's Chief Financial Officer, HRM will ensure that the reviews identified throughout the Auditor General's report are undertaken and appropriate action taken. Also, as noted in response to recommendation 4.2.1, HRM Legal Services will review the circumstances related to the transfer of box office operations and ensure that any transfer and ownership questions that may remain are followed up on.

- 3.0.4 The OAG recommends HRM clarify and document the role and authority of Trade Centre Limited's Board of Directors with respect to Halifax Metro Centre activities, specifically with respect to Recommendations 2.1.1 and 2.2.1.

Management Response:

Agree – HRM's Legal Services business unit will review and document in discussion with Trade Centre Limited.

- 3.0.5 Given the nature of the management agreement and the complexity of operations related to the Halifax Metro Centre, the OAG recommends HRM review and formally document the governance structure for this arrangement. During this review, the OAG recommends HRM consider if the current structure of having minority representation on the Board of Directors for Trade Centre Limited is the most efficient and effective governance structure.

Given this, the OAG would recommend HRM (in consultation with Trade Centre Limited) consider the option of no HRM representation on the Board of Directors, but with a very strict process of budget and operating results oversight by HRM Administration, as well as restricted levels of authority for Trade Centre Limited staff. In other words, HRM would expect a much higher level of Trade Centre Limited accountability towards agreed upon performance targets.

Management Response:

Agree – As part of the on-going work on the Economic Development governance review, the Board structure for Halifax Metro Centre will be reviewed and documented. The draft interim management agreement addresses timelines and responsibilities for budgeting and reporting. In addition, starting with 2012/13 quarterly reporting and 2013/14 budgeting, HRM's quarterly financial reports and annual budgets will include Halifax Metro Centre as well as other agencies, boards and commissions.

3.1 HRM's Actions around the Change to Ticketing Operations and Responsiveness by Trade Centre Limited to Requests for Information with Respect to the Transfer

HRM staff raised concerns regarding the transfer to HRM senior management by e-mail on August 2 and August 3, 2006 and by internal memo on August 21, 2006. However, it appears there was no formal action taken by HRM until April 3, 2007.

In the letter, the CAO also questioned if Regional Council should have approved the decision.

HRM staff raised concerns regarding the transfer to HRM senior management by e-mail on August 2 and August 3, 2006 and by internal memo on August 21, 2006. However, it appears there was no formal action taken by HRM until April 3, 2007. At that time, the then HRM CAO wrote to the then President and CEO of Trade Centre Limited regarding several items, including requesting a written explanation and "letter of comfort" confirming the transfer was arranged in such a way as "to negate any negative impact on Metro Centre's bottom line, and the change is to the future benefit of both Metro Centre and TCL"⁵. In the letter, the CAO also questioned if Regional Council should have approved the decision.

E-mail correspondence indicates between May and July 2007 there were some discussions resulting from the enquiries. However, there was no formal reply to the April 3, 2007 correspondence and on June 4, 2008, HRM's then CAO followed up by e-mail with the Director of Finance of Trade Centre Limited with again no apparent response. On July 30, 2008, HRM's then CAO once again attempted to follow up with Trade Centre Limited's then President and CEO, indicating he was awaiting a response to his questions concerning ticketing revenue and expense streams and advised he would be in a position to sign off the 2007/08 audited financial statements once a response was received. It is interesting to note the audited financial statements for the year the transfer was effective (2006/07) were approved by HRM's then CAO on July 18, 2007 without having received a response to his initial inquiries around the change in ownership.

Trade Centre Limited's then President and CEO responded on July 31, 2008 providing information, in his view, justifying the transfer. The timing of communications on this issue raises a number of concerns for the OAG. Why did it take so long to receive a response from Trade Centre Limited? Given the significant change implemented by Trade Centre Limited, the OAG would have expected an immediate and thorough response to the initial correspondence from HRM. In addition, the OAG questions the timing and actions of HRM's senior management. They were made

⁵ Letter dated April 3, 2007 from then HRM CAO to then President and CEO, Trade Centre Limited.

At no point does it appear HRM's Legal or Risk Management Services were brought in, although both would have had an important role in protecting HRM's interests.

aware of the situation in August 2006, but it appears no formal action was taken until April 2007 (eight months later). At no point does it appear HRM's Legal or Risk Management Services were brought in, although both would have had an important role in protecting HRM's interests. The OAG also wonders why there was no formal follow-up for a full year.

Recommendations:

- 3.1.1 The OAG recommends HRM implement a formal communications protocol with Trade Centre Limited in order to ensure a timely response to queries regarding the management of Halifax Metro Centre operations.

Management Response:

Agree – Reporting protocols will be outlined in the draft interim management agreement referenced above.

- 3.1.2 The OAG recommends HRM Administration complete a full and thorough review of how HRM deals internally with the management of the Halifax Metro Centre, including direct responsibility for issues which may arise, and ensure these policies and procedures are appropriately documented.

Management Response:

Agree – Throughout the development of the interim management agreement, internal business processes and the assignment of responsibilities and accountabilities are being reviewed and documented.

- 3.1.3 While it is outside the scope of this project, the OAG suggests the policies and procedures developed from Recommendation 3.1.2 above should be adapted and made applicable to any other facility which is owned by HRM and managed on its behalf by a third party, if they do not already exist.

Management Response:

Agree – Phase 1 of the HRM Multi-District and Event Facilities project, approved at the November 8, 2011 Regional Council meeting, is reviewing and implementing effective accountability and adequate reporting and management processes for facilities owned by HRM and managed by a third party.

3.2 Justification for Transfer

As noted above, in a letter dated July 31, 2008, Trade Centre Limited's then President and CEO responded to the letters from HRM's CAO regarding the transfer of box office operations. In his response, Trade Centre Limited's then President and CEO provided information showing poor operating results for box office operations for the two years prior to the implementation of the new system and a significant loss for the year the system was implemented. He then indicated Trade Centre Limited's solution to the poor performance was to change the business model and have Trade Centre Limited take over box office operations and expand sales to events outside the Halifax Metro Centre.

There are three main points of note here:

1. It would appear the focus of expanding the ticketing business beyond Halifax Metro Centre events and the transfer of the business to Trade Centre Limited was not an after-the-fact reaction to poor operating results. Instead, the OAG would assert it appears to have been contemplated for some time, and as a minimum, throughout the ticket software purchasing process (see Section 2.1). This assertion is supported by various documents provided to the OAG during this review. For example:
 - the title of the RFP for the ticketing software stated Halifax Metro Centre was a division of Trade Centre Limited (as previously noted)
 - a meeting agenda between Trade Centre Limited and Vendor X from August 2003 referenced a discussion around a "Regional Ticketing Concept"
 - the Vendor X proposal included significant projected sales related to non-Halifax Metro Centre events
 - the revised Vendor X proposal dated October 15, 2004 suggested, in their view, a projected return on investment to the Halifax Metro Centre of \$5,900,000 over a five-year partnership. It appears this projection was not shared with HRM.

The OAG did not find a business case prepared by Trade Centre Limited related to the transfer.

- the licensing agreement for the ticketing software signed in December 2004 named the Trade Centre Limited, not the Halifax Metro Centre, as the licensee
- box office operations had been selling tickets to outside events since at least 2003/04. The number of outside events for which Trade Centre Limited sold tickets did increase significantly after 2005/06, but it was not a new activity.

2. The OAG did not find a business case prepared by Trade Centre Limited identifying why the transfer should take place, or what any of the terms or conditions of the transfer would be.
3. The financial information provided by Trade Centre Limited's then President and CEO in his letter dated July 31, 2008 is inconsistent with financial information previously provided by Trade Centre Limited. The July 31, 2008 letter stated "the Box Office operation had minimal/negative return as follows:

2004 (\$39,800) loss

2005 \$29,329 profit

The year we introduced the new software, HMC showed a loss of approximately (\$127,016)."⁶

This information is concerning as it is not consistent with other financial information provided by Trade Centre Limited as shown in Table 1 below.

⁶ Letter dated July 31, 2008 from then President and CEO, Trade Centre Limited to then CAO, Halifax Regional Municipality.

Table 1: Box Office Contribution Fiscal years 2003/04 to 2011/12

| Fiscal Year | Box Office "Contribution"* | Net Box Office "Profit" (per letter from Trade Centre Limited President & CEO)**** | Variance |
|---------------------------------------|----------------------------|--|-----------|
| Pre-transfer to Trade Centre Limited | | | |
| 2003/04 | \$263,282 | (\$39,800) | \$303,082 |
| 2004/05 | 354,158 | 29,329 | \$324,829 |
| 2005/06 | 220,381 | (127,016) ** | \$347,397 |
| Post-transfer to Trade Centre Limited | | | |
| 2006/07 | \$327,469 *** | | |
| 2007/08 | 452,950 *** | | |
| 2008/09 | 996,642 *** | | |
| 2009/10 | 353,199 *** | | |
| 2010/11 | (7,068) *** | | |
| 2011/12 | 180,019 *** | | |

* Per financial information provided by Trade Centre Limited directly to the OAG.

**Trade Centre Limited staff have confirmed this amount (\$127,016) contains duplicate expenses of \$182,686 and as such the letter should have reflected a contribution margin of \$55,670.

*** Box Office Contribution for 2006/07 to 2011/12 includes direct revenues, direct expenses, allocated overhead expenses but excludes the commission which was paid to Halifax Metro Centre. It does not reflect a "contribution margin" as is generally understood in accounting terminology.

****The term "Profit" is used by Trade Centre Limited and includes direct revenues, direct expenses, allocated overhead expenses.

The results for the years 2003/04 to 2005/06 in the blue column, Box Office Contribution (provided by Trade Centre Limited which at the time were part of the reporting of management financial information), show a very different result when compared with the operating results presented in the letter noted earlier from the then President and CEO of Trade Centre Limited (purple column). After identifying the variances noted in Table 1 above, the OAG further reviewed the information to determine the basis for the differences. The results of this review are outlined below in Table 2.

Table 2: Comparison of Financial Information provided by Trade Centre Limited (TCL)

| | Per July 31, 2008 letter from TCL President & CEO and supporting documentation provided by TCL staff (see Table 1) | | Per July 31, 2008 letter from TCL President & CEO and supporting documentation provided by TCL staff (see Table 1) | | Per July 31, 2008 letter from TCL President & CEO and supporting documentation provided by TCL staff (see Table 1) | |
|---|---|--|---|--|---|--|
| | Per Financial Information provided by TCL (see Table 1) | Per Financial Information provided by TCL (see Table 1) | Per Financial Information provided by TCL (see Table 1) | Per Financial Information provided by TCL (see Table 1) | Per Financial Information provided by TCL (see Table 1) | Per Financial Information provided by TCL (see Table 1) |
| | 2003/04 | 2003/04 | 2004/05 | 2004/05 | 2005/06 | 2005/06 |
| Service Charges | 434,467 | 434,467 | 467,226 | 467,226 | 854,347 | 854,347 |
| Expense Recovery | 49,949 | 49,949 | 88,614 | 88,614 | 69,053 | 69,053 |
| | 484,416 | 484,416 | 555,840 | 555,840 | 923,400 | 923,400 |
| Salaries | | 165,000 | | 172,000 | ** | 175,000 |
| Box Office Ops | 180,605 | 180,605 | 175,705 | 175,705 | 250,110 | 250,110 |
| Computer Expenses | 40,529 | 40,529 | 25,977 | 25,977 | 253,591 | 253,591 |
| Merchant Discount | | 93,082 | | 107,829 | 144,029 | 144,029 |
| Vendor X - Connectivity | | | | | 43,200 *** | 77,686 *** |
| Vendor X - Base Fee | | | | | 12,089 *** | 105,000 *** |
| | 221,134 | 479,216 | 201,682 | 481,511 | 703,019 | 1,005,416 |
| Box Office Contribution | 263,282 | 5,200 | 354,158 | 74,329 | 220,381 | (82,016) |
| Overhead Expenses | | 45,000 | | 45,000 | | 45,000 |
| Profit* | 263,282 | (39,800) | 354,158 | 29,329 | 220,381 | (127,016) |
| Variance between initially reported financial information and the financial information provided in the letter from Trade Centre Limited's President and CEO. | | 303,082 | | 324,829 | | 347,397 |

*Please note: the term "Profit" used above is a term provided by Trade Centre Limited and the calculation includes direct revenues, direct expenses and allocated overhead expenses for the box office operations.

** The detailed management financial information statements provided show \$150,000 in the salaries line in 2005/06, however this amount was not included in the totals and was, therefore, excluded for this presentation.

*** In discussions with Trade Centre Limited staff, the OAG was advised these expenses were not included in the audited financial statements and were duplicate expenses included in error.

The above table was compiled based on information provided by Trade Centre Limited staff to HRM Administration as part of its ongoing financial reporting process and to the OAG directly as part of this project; the information in the blue, green and orange columns (fiscal years 2003/04, 2004/05 and 2005/06 respectively) are indicated as "audited" on the information received.

The information provided in the letter dated July 31, 2008 from Trade Centre Limited's then President and CEO appears to include costs which were not included in the 2005/06 financial information originally provided to HRM.

The information provided in the letter dated July 31, 2008 from Trade Centre Limited's then President and CEO appears to include for 2005/06, additional Vendor X related fees (\$127,397), salaries (\$175,000) and overhead expenses (\$45,000) which were not included in the 2005/06 financial information originally provided to HRM. It also appears to include salaries, merchant discount fees and overhead expenses for the 2003/04 and 2004/05 fiscal years

which had not been included as part of box offices expenses in the information previously reported to HRM (and were not originally included in the financial information provided to the OAG as part of this review).

The addition of these expenses raises interesting questions as to why they were not initially included in box office operations financial reporting and why they were included, without explanation, in a letter issued more than two years later.

Additionally, the 2005/06 results originally submitted to HRM include \$250,868 related to the new Vendor X system. Of this amount, Trade Centre Limited staff confirmed \$55,289 had not in fact been incurred. On further review, it appears there were also duplicate Vendor X charges of \$12,894. In further discussions with respect to the matter, Trade Centre Limited staff advised the \$55,289 was in fact not included in the audited financial statements and had been included in the management financial information provided for illustrative purposes only. The intent of the change in the management financial information was to restate the contribution margin for the business line as Trade Centre Limited felt they may have omitted certain costs in their original estimates. On further investigation, Trade Centre Limited staff confirmed these costs had in fact been included in the Computer Expenses line and were duplicated in the report (although they were not paid twice)

The July 31, 2008 letter increases the amount of charges related to Vendor X by \$127,397. In light of the discussion above and the reasoning behind it, the OAG had to question why the additional \$127,397 was included in the July 31, 2008 letter, given the category Computer Expenses already included the full amount due for Vendor X connectivity and base fees. Trade Centre Limited's current senior staff confirmed this was an additional duplicate reporting of charges and were not included in the audited financial statements, nor paid twice.

These significant differences raise a number of questions for the OAG:

1. What level of due diligence did HRM Finance staff undertake in ensuring they were receiving accurate financial information?

2. It appears significant new costs were reported as part of box office operations in the 2005/06 fiscal year. The OAG has to question why these charges were accepted by HRM without question and why the discrepancy in the letter from Trade Centre Limited's then President and CEO was not identified and questioned by HRM staff.

It appears HRM did not fully review the information which was provided by Trade Centre Limited as it appears no questions were raised regarding significant discrepancies in the financial information provided or in the lack of information regarding what the proposed new model would include.

It is also interesting to note, according to Trade Centre Limited staff, the implementation costs for the Vendor X system (including upgraded hardware and software) totalled \$178,734. This amount was apparently paid by Trade Centre Limited and recorded as a capital asset in their financial statements in 2005/06. Again the OAG wonders why Trade Centre Limited would do this unless they had planned to transfer the business line.

Recommendations:

- 3.2.1 Based on the lack of clarity regarding previous and current financial contributions of the box office operations business line, the OAG recommends HRM undertake a full and detailed review of the financial reporting of Halifax Metro Centre results, with specific emphasis on box office contributions.

Management Response:

Agree – Under the direction of HRM's Chief Financial Officer, HRM will ensure that the reviews identified throughout the Auditor General's report are undertaken and appropriate action taken.

- 3.2.2 Although outside the scope of this project, the variances noted in Section 3.2 raise concerns for the OAG regarding HRM's understanding of the overall financial reporting for the Halifax Metro Centre. As such, the OAG recommends HRM undertake a full and detailed review of the financial results of operations of the Halifax Metro Centre from 2004/05 to current to gain a more complete understanding

of costs actually incurred as well as allocated, and the overall results and various trends in operations. The work should be completed by an individual with specific expertise in these types of analysis.

Management Response:

Agree – Under the direction of HRM’s Chief Financial Officer, HRM will ensure that the reviews identified throughout the Auditor General’s report are undertaken and appropriate action taken.

- 3.2.3 In the future, as would be suggested in any arms-length business transaction, the OAG recommends HRM Administration complete a full and independent evaluation of any business case provided by Trade Centre Limited proposing changes to business models, to ensure the completeness and accuracy of any information provided.

Management Response:

Agree – As noted in response to 3.1.2 above, throughout the development of the interim management agreement, internal business processes and the assignment of responsibilities and accountability for dealing with issues arising under the management of the facility are being reviewed and documented.

- 3.2.4 The OAG recommends, when completing Recommendations 3.2.1 and 3.2.2, HRM also confirm the amounts Halifax Metro Centre was charged in relation to the Vendor X system and the expanded business model. If there were, in fact, duplicate or non-specific charges incurred by Halifax Metro Centre, HRM should seek to recover these from Trade Centre Limited.

Management Response:

Agree – If, as a result of the reviews noted above in 3.2.1 and 3.2.2, it is determined that duplicate or non-specific charges were incurred by Halifax Metro Centre, HRM will seek appropriate avenues to recover these amounts.

3.3 Commission Agreement

There was little or no involvement in the decision making process by HRM staff regarding the transfer of box office operations or the current ticket commission arrangement.

On average 75% of tickets sold (which attract commission) have been for Halifax Metro Centre events.

Halifax Metro Centre received an average of 26% of the contribution margin for the box office operations.

When Trade Centre Limited moved box office operations from Halifax Metro Centre, they also implemented a commission-based payment to Halifax Metro Centre. The commission payment was described by Trade Centre Limited staff as compensating HRM for the lost “profit” from box office operations and was purported to provide a guaranteed annual income beyond what HRM had received in the past.

As noted several times previously, through the course of this project, it became apparent to the OAG there was little or no involvement in the decision making process by HRM staff regarding the transfer of box office operations or the current ticket commission arrangement.

During discussions with Trade Centre Limited staff, the OAG was advised the current commission arrangement was justified because it was what Trade Centre Limited was paying their software provider.

To gain some basic understanding, the OAG has completed a high-level analysis of ticket commissions received by Halifax Metro Centre for 2006/07 to 2011/12, and then compared these with the previously earned box office contribution margin. The results of this review are included in Table 3 below. On average, for the fiscal years since the transfer took place, 75% of tickets sold (which attracted commission) were for Halifax Metro Centre events. However, the Halifax Metro Centre has received an average of 26% of the contribution margin for box office operations (now called Ticket Atlantic) for the same time-period. Given the nature of the business and Halifax Metro Centre’s event sales, it seems reasonable the return to Halifax Metro Centre should likely be higher. An interesting side note is the total commission received by the software provider is higher than the total received by Halifax Metro Centre for each of the fiscal years between 2006/07 and 2011/12.

The ticket sales included in Table 3 below include only tickets on which a commission was paid to Halifax Metro Centre.

Table 3: Analysis of the Return to Halifax Metro Centre for Tickets Sold for its Events.

| Fiscal Year (of event) | % of Tickets Sold which related to Halifax Metro Centre events* | Commission paid to Halifax Metro Centre | Box Office Contribution Margin (before Commission to Halifax Metro Centre) | % of Contribution Margin Paid to Halifax Metro Centre |
|---------------------------|--|--|---|---|
| 2006/07 | 73.57% | \$89,624 | \$327,469 | 27% |
| 2007/08 | 73.49% | 108,135 | 452,950 | 24% |
| 2008/09 | 79.13% | 115,414 | 996,642 | 12% |
| 2009/10 | 73.96% | 95,412 | 353,199 | 27% |
| 2010/11 | 62.34% | 73,938 | -7,068 | -1046% |
| 2011/12 | 84.84% | 114,664 | 180,019 | 64% |

* Does not include season tickets, group ticket sales or complimentary tickets as no commission is paid for these tickets.

The OAG understands the detailed calculation on which the commission is based was not documented.

It is also important to discuss details of the calculation of the commission paid to the Halifax Metro Centre. The OAG understands the detailed calculation on which the commission is based was not documented, vetted or approved by HRM. Correspondence indicates HRM staff understood the calculation to be \$0.40 per ticket for events held at the Halifax Metro Centre. Trade Centre Limited staff have advised the commission calculation is \$0.40 per ticket but calculated as follows:

| | |
|-----------------------------------|---|
| Total tickets | |
| Less: group ticket sales | |
| Less: season tickets sales | |
| Less: complimentary tickets | = |
| Net tickets attracting commission | |

The Halifax Metro Centre received (on average) a commission for only 45% of tickets distributed for Halifax Metro Centre Events.

These exclusions change the calculation significantly. As shown in Chart 1 below, based on this calculation, the Halifax Metro Centre received (on average) a commission on only 45% of all tickets distributed for Halifax Metro Centre events. It seems reasonable to conclude there were more tickets distributed that did not attract a commission than did. Complimentary tickets account for 20% (on average) of total tickets, and season tickets 29%. In fact, in 2006/07 and 2007/08, there were more season tickets sold than single tickets (for all events) (see Chart 2 below).

The OAG was advised a significant portion of the complimentary seats relate to those released by

The OAG was advised a significant portion of the complimentary seats relate to those released by organizations not under the control of Trade Centre Limited. Irrespective of who distributes the

organizations not under the control of Trade Centre Limited.

complimentary tickets, the issue of HRM receiving a commission on a minority portion of the tickets distributed to events remains.

Chart 1: Tickets Related to Halifax Metro Centre Events by Type - Fiscal Years 2006/07 to 2011/12 Inclusive

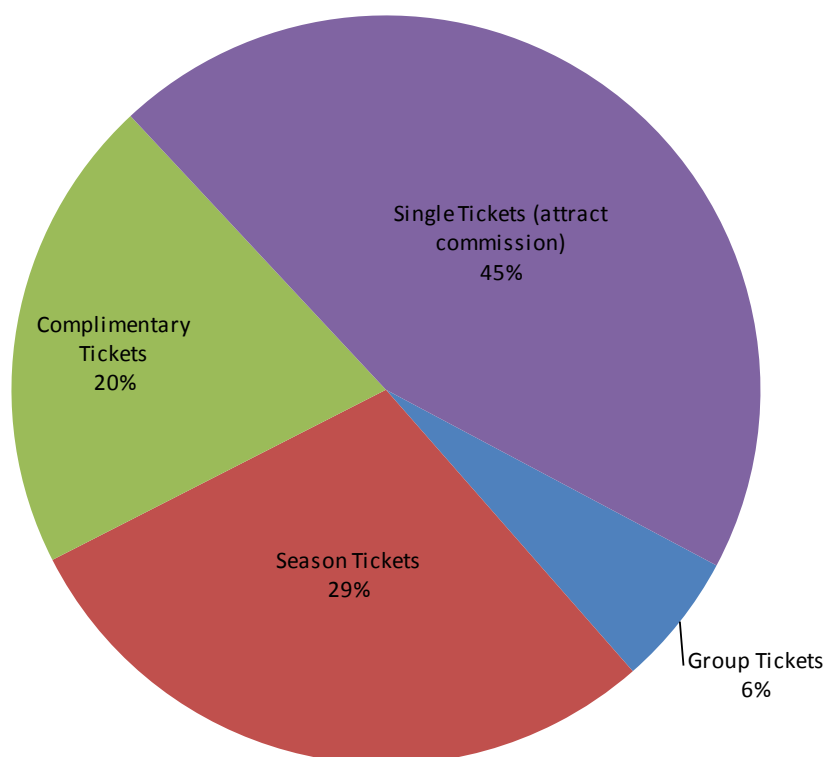
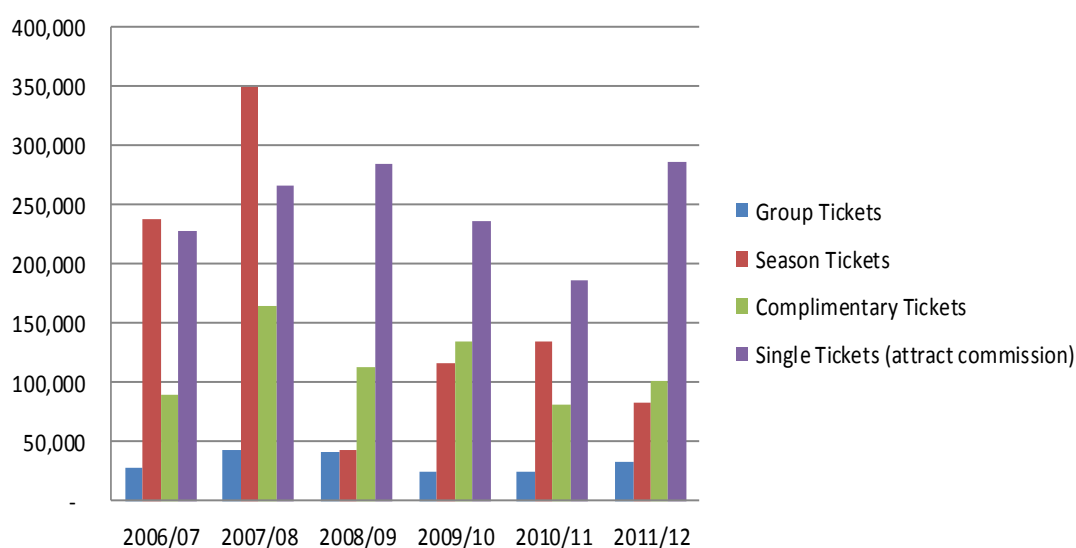


Chart 2: Breakdown of Tickets to Halifax Metro Centre Events by Type - Fiscal Years 2006/07 to 2011/12



Recommendations:

- 3.3.1 On the basis the present ticketing arrangement continues, the OAG recommends HRM negotiate a contract with Trade Centre Limited governing commission payments for tickets to Halifax Metro Centre events. This negotiated commission structure should follow from a full and robust assessment of all possible structures (i.e. including possibilities such as minimum charges or profit sharing, with the best value to HRM being the goal) and reflect the substantive business received from the Halifax Metro Centre. It should not simply be an exercise in documenting the current arrangement.

Management Response:

Agree – Under the direction of HRM's Chief Financial Officer, HRM will ensure that the reviews identified throughout the Auditor General's report are undertaken and appropriate action taken. As well, the interim management agreement will address the need for supporting calculations for the commissions from Ticket Atlantic.

- 3.3.2 Given the circumstances which gave rise to the existing arrangement, the OAG recommends any revised commission calculation be applied, to the extent possible, retroactively to April 1, 2006.

Management Response:

Agree – Under the direction of HRM's Chief Financial Officer, HRM will ensure that the reviews identified throughout the Auditor General's report are undertaken and appropriate action taken. If a revised commission agreement is an outcome of the reviews, a retroactive application of the revised commission calculation will be addressed. As well, the interim management agreement will address the need for supporting calculations for all commissions from Ticket Atlantic.

- 3.3.3 The OAG recommends HRM's Legal Services be fully involved in the drafting of any agreement related to commissions payable to the Halifax Metro Centre to ensure HRM's interests are fully protected.

Management Response:

Agree – HRM Legal Services and the Provincial Department of Justice

have been and will continue to be involved in the drafting of the interim agreement with Trade Centre Limited as it relates to the operation and management of Halifax Metro Centre, which includes the commissions due to Halifax Metro Centre.

3.3.4 The OAG recommends HRM investigate all ticketing options available to the Halifax Metro Centre. On the basis Trade Centre Limited is a supplier in or of this business, the OAG recommends their participation be minimal in order to ensure impartiality and transparency.

Management Response:

Agree – Under the direction of HRM's Chief Financial Officer, HRM will ensure that the reviews identified throughout the Auditor General's report are undertaken and appropriate action taken.

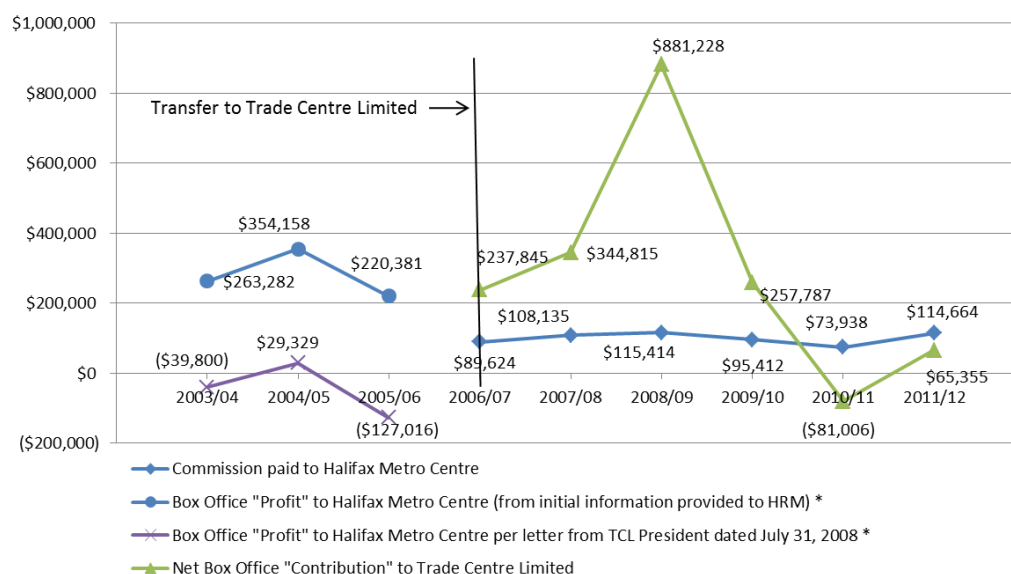
3.4 Likely Impact on Halifax Metro Centre Financial Position Due to the Transfer of Box Office Operations

As noted previously, based upon correspondence reviewed, it appears HRM staff understood the change in the business model for box office operations was “arranged in such a way as to negate any negative impact on Metro Centre’s bottom line”.⁷ Trade Centre Limited’s then President and CEO effectively confirmed this when he stated “I believe this change benefited HMC in providing a guaranteed annual income beyond which it had received in the past.”⁸ However, it is difficult to accept the change in business model did not have an impact on the Halifax Metro Centre’s bottom line. Chart 3 below shows the “contribution margin” for ticketing operations before and after the change. There are two separate lines shown for the years from 2003/04 to 2005/06 which represent the different amounts reported to HRM by Trade Centre Limited. Based on the documentation received, there is a lack of clarity regarding the accurate “profit” or “contribution margin” for box office operations prior to the transfer. In this review, it was not within the scope of the OAG to determine what the correct amount was. It is likely reasonable to assume it falls somewhere between the two lines shown in Chart 3 below.

⁷ Letter dated April 3, 2007 from then CAO, HRM to then President and CEO, Trade Centre Limited.

⁸ Letter dated July 31, 2008 from then President and CEO, Trade Centre Limited to then CAO, HRM.

Chart 3: Ticket Commission vs. Box Office Contribution



*Please note: the term "Box Office Contribution" used is a term provided by Trade Centre Limited and the calculation includes direct revenues, direct expenses and allocated overhead expenses for the box office operations. It does not reflect a "contribution margin" as is generally understood in accounting terminology.

It is interesting to note, based on the information provided by Trade Centre Limited, the contribution to the Halifax Metro Centre for box office activities in the six years following the transfer totalled \$597,187 as compared to \$1,706,024 to Trade Centre Limited.

It is interesting to note, based on the information provided by Trade Centre Limited, the contribution to the Halifax Metro Centre for box office activities in the six years following the transfer totalled \$597,187 as compared to \$1,706,024 to Trade Centre Limited.

It is also interesting to note, as shown in Table 4 below, the "contribution" per ticket sold increased significantly in the years following the transfer.

Table 4: Per Ticket Contribution 2003/04 to 2011/12

| Total Fiscal Year | Events | Sold Tickets*** | Total Revenues | Total Direct Costs ** | Per Ticket Revenue | Per Ticket Costs | Per Ticket Contribution |
|-------------------|--------|-----------------|----------------|-----------------------|--------------------|------------------|-------------------------|
| 2003/2004 | 97 | 455,158 | \$484,416 | \$479,216 | \$1.06 | \$1.05 | \$0.01 |
| 2004/2005 | 115 | 482,751 | 555,840 | 481,511 | 1.15 | 1.00 | 0.15 |
| 2005/2006 | 160 | 552,050 | 923,400 | 822,730 * | 1.67 | 1.49 | 0.18 |
| 2006/2007 | 211 | 570,775 | 1,512,967 | 1,185,498 | 2.65 | 2.08 | 0.57 |
| 2007/2008 | 250 | 535,406 | 1,567,552 | 1,069,057 | 2.93 | 2.00 | 0.93 |
| 2008/2009 | 274 | 600,900 | 2,360,629 | 1,320,553 | 3.93 | 2.20 | 1.73 |
| 2009/2010 | 322 | 535,715 | 1,692,475 | 1,318,475 | 3.16 | 2.46 | 0.70 |
| 2010/2011 | 500 | 506,628 | 1,198,257 | 1,197,543 | 2.37 | 2.36 | 0.01 |
| 2011/2012 | 369 | 439,090 | 1,406,659 | 1,217,572 | 3.20 | 2.77 | 0.43 |

*** tickets sold is based on the year the event was held, not the year the tickets were sold and includes individual tickets, season tickets and group ticket sales. Only individual tickets attract service charges.

** Total Direct costs for 2003/04 to 2005/06 are based on the details provided in support of the July 31, 2008 letter for Trade Centre Limited's the President and CEO.

* calculated as \$1,005,416 in total direct costs included in the the July 31, 2008 letter from Trade Centre Limited's then President and CEO, less \$182,686 in Vendor X related charges which the OAG has confirmed were duplicated expenses.

3.5 Approval of Expenses and Cost Allocations

How are costs allocated between the Halifax Metro Centre and Trade Centre Limited and who approves costs as applicable to Halifax Metro Centre?

As previously discussed, the “revised” financial information referenced in the letter dated July 31, 2008 from Trade Centre Limited’s then President and CEO is different from the financial information originally provided to HRM and the difference appears to include various cost allocations⁹. The information provided by Trade Centre Limited’s then President and CEO included allocated salaries, merchant discount fees, system (Vendor X) charges and overhead expenses which do not appear to have been included in financial information provided previously (or subsequently). This raises a number of questions:

- How are costs allocated to Metro Centre activities?
- Who approves the allocations?
- Are there agreements which govern the allocation of costs and the circumstances under which the allocations take place?

Recommendation:

3.5.1 Although outside the scope of this project, the following recommendation arises due to work done within the scope of the project.

The OAG suggests HRM agree, as part of the ongoing changes to the Memorandum of Understanding governing Trade Centre Limited’s management of the Halifax Metro Centre, which specific costs incurred by Trade Centre Limited can be allocated to the Halifax Metro Centre and the calculation to be used to arrive at the amount. HRM’s Legal Services should be fully involved in this negotiation so any resulting agreement is properly documented in such a way as to ensure HRM’s interests are protected.

Management Response:

Agree – Under the direction of HRM’s Chief Financial Officer, HRM will ensure that the reviews identified throughout the Auditor General’s report are undertaken and appropriate action taken, including documentation and agreement on the cost allocation methods. HRM Legal Services will be fully involved in the negotiation of the cost allocation methods.

⁹ Cost allocations are expenses which are divided among the various branches, departments, etc., of a business.

4.0 HRM Oversight and Governance of Halifax Metro Centre Operations

HRM apparently by default or lack of definitive action has been divested of an asset in a manner which lacked review, due diligence, transparency and authority.

The points related to this section have been noted throughout this report and were discussed to a degree in the previous report by the OAG “A Review of Concerts Held on the North Common – January 2006 to March 2011”. However, given the significance of the issues and themes which have recurred in several reports by the OAG, a discussion has been included here to reiterate the importance.

Lack of Involvement and Oversight by HRM

During the course of the review, it became apparent HRM held an asset (box office operations) which it did not actively manage or oversee. As a result, HRM apparently by default or lack of definitive action has been divested of an asset in a manner which lacked review, due diligence, transparency and authority. It appears HRM staff attempted to raise some of these concerns but Senior Management at HRM did not act upon them.

As has become a common theme in several reports prepared by the OAG, the question of why knowledgeable senior staff involved did not pursue the matter vigorously on behalf of HRM is again relevant.

The following are a number of items/actions which appear to have been reasonably expected of such a senior group, but appear not to have been done:

- Regular, detailed monitoring and understanding of the various business lines making up Metro Centre Operations, and the related financial results. For example, there does not appear to have been organizational knowledge within HRM of the methodology used by Trade Centre Limited to allocate wages from Trade Centre Limited to Halifax Metro Centre. In addition, Trade Centre Limited does not appear to maintain a summarized listing of the salaries (by individual staff member) allocated to Halifax Metro Centre on an annual basis, which agrees to the financial statements, although this could be considered a reasonable and standard business practice for one entity which is charging another for salary costs. There also does not

appear to have been an understanding within HRM of the overall profitability of the box office operations and if in fact the amount was reasonable in the circumstances.

- The immediate preparation of detailed analysis as described to gain an understanding of the likely impact to HRM of the possible transfer of box office operations and to guide future actions, given the change of business model was developed solely by Trade Centre Limited.
- The immediate involvement of Legal Services to assist with guiding decisions, given the circumstances surrounding the change and possible legal issues which could result.
- As a minimum, making Regional Council aware of the matter at some point would have been appropriate.
- Documenting all decisions for future reference would have been appropriate.
- Using a detailed analysis such as the one proposed by the OAG, a thorough review of the proposed “commission” formula (to keep HRM “neutral”) should have been undertaken by the then Acting Director of Finance. Despite having knowledge of the transfer and the “new commission” arrangement and the passage of years, this analysis has yet to be formally completed by HRM.
- Should the management group assembled at the time have felt it did not have the appropriate expertise to complete the analysis at the appropriate level; an alternative means could have been developed.

HRM must realize the Halifax Metro Centre is a very valuable HRM asset and as such, begin to manage its involvement in such a way as to protect the interests of HRM taxpayers.

Also, the expectations for the CAO going forward with respect to management must be made very clear. The opinion of some, expressed directly to the OAG, is that if there is no clear direction as to what might be expected from their role in each specific situation, they do not feel they can be held responsible.

In reviewing the correspondence and process related to this specific situation, the OAG wonders:

- why HRM Finance did not complete their own independent analysis of the transfer and subsequent impact on HRM?
- why HRM did not involve its Legal or Risk Management staff?
- why HRM did not follow up to ensure the transfer was not negatively impacting the results for Halifax Metro Centre?

Authority of CAO

The OAG questions if HRM's CAO had, or could have had the authority to accept this change. Given this change appears to have effectively eliminated a business line with a likely positive contribution margin (and significant future potential) from Halifax Metro Centre operations, the OAG wonders if it is in the best interests of HRM for one individual to have authority to make decisions of this magnitude and suggests a second level of review and/or sign-off should be required.

In addition, the OAG is concerned this decision - and the approval - was never formally documented, and has simply been allowed to continue. Even after being brought to the attention of senior staff in HRM, it appears to have never been reviewed with documented analysis and approval.

This point is raised as there is nothing currently in place to prevent this situation from happening again and there is no process in place to ensure accountability and proper judgement by HRM senior staff for the protection of HRM.

From a process perspective, the OAG notes HRM has processes in place to provide controls around the disposal of tangible assets (such as buildings or land) so as to protect HRM's interests, but does not appear to have similar controls for assets such as a line of business.

Based on the questions raised in this report, the OAG wonders who is responsible for ensuring the performance of HRM's Agencies, Boards and Commissions and what the accountabilities are to the

taxpayers of HRM.

The following comments are not made as specific comments around the overall management of the Halifax Metro Centre by Trade Centre Limited. However, the OAG feels the comments are appropriate at this time in order to illustrate the complexities of what many might think a relatively simple exercise.

As has been the situation with many OAG reports, the so-called facts of the matter became obvious relatively quickly. As examples, the OAG would point to both the report “A Review of Concerts Held on the North Common - January 2006 to March 2011” and the report “Review of HRM’s Contribution to the Halifax Seaport Farmers’ Market through the Community Facility Partnership Fund”. In both cases, funds were clearly expended, but in both cases the question of process and information made available to those making decisions is consistently lacking.

As the owner of the asset, it is the view of the OAG, HRM had an obligation to actively oversee the management of the Halifax Metro Centre and have prepared whatever reports it would have felt appropriate to enable it to understand, monitor and contribute to the operating results.

There is little doubt the operations of the Halifax Metro Centre are profitable, however, after various discussions, the OAG is of the opinion HRM unfortunately appears to have little understanding of a number of key performance indicators and even, for example, the overall state of repair of the Halifax Metro Centre itself.

Recommendations:

- 4.0.1 The OAG recommends ensuring there is an agreement with Trade Centre Limited specifying Trade Centre Limited’s understanding that the Halifax Metro Centre is an HRM entity and documents Trade Centre Limited’s accountability to HRM for all decisions made regarding the operations of the Halifax Metro Centre.

Management Response:

Agree – As noted above, a draft interim management agreement has been developed outlining the relationship between the parties,

specific levels of authority, reporting requirements and performance measures. This document will be brought forward to Audit and Finance Standing Committee for review in the coming months.

- 4.0.2 The OAG recommends HRM review the authority level for its CAO and determine if a change is needed so that divesting of an asset such as a line of business, requires, for example, Regional Council's approval or at a minimum, specific written approval.

Management Response:

Agree – HRM Legal Services will document and confirm the required Regional Council approval.

- 4.0.3 Although outside the scope of this project, the following recommendation arises due to work done within the scope of the project.

Given many of the issues raised only to the OAG during the preparation of this report, the OAG recommends HRM Administration consider engaging an external review of Halifax Metro Centre operations to ensure it is being managed to derive the greatest return for HRM.

Management Response:

Agree – Under the direction of HRM's Chief Financial Officer, HRM will ensure that the reviews identified throughout the Auditor General's report are undertaken and appropriate action taken.

4.1 HRM File Documentation

There was no “master file” available containing all relevant information.

As part of this review, the OAG asked HRM staff for specific information relating to past box office operations and the transfer of ticketing operations from the Halifax Metro Centre to Trade Centre Limited.

There were significant gaps in the information available within HRM and the available documentation was spread among the files of several staff members. As a result, there was no “master file” available containing all relevant information. The OAG has noted similar situations in previous reports.

This lack of what most would consider minimum documentation for any organization with a managed “business” asset, is very concerning to the OAG. At the very least, the OAG would have expected to see:

- yearly plans (budgets) and performance measures
- review of operating results with management comments
- regular documented dialogue between HRM and Trade Centre Limited
- information around the proposed transfer of ticketing operations with a detailed analysis by HRM staff as to the implications
- documentation around the terms of the transfer, timing and other items/terms one would normally expect to see in this situation
- a Regional Council Briefing document with respect to the matter
- warranties provided by Trade Centre Limited to HRM should the change of ownership not result in the “revenue neutral” situation as promised. Also, it might seem reasonable to expect some growth in the revenue stream to HRM although no provision for this appears to exist.
- additionally, no specific documentation appears to exist around HRM’s ongoing management of the “contract”, i.e. who is responsible, timelines, et cetera.

In conclusion and as stated in previous reports, what is most worrisome to the OAG is the fact that these types of transactions can take place with no formal processes to govern them, and at the complete discretion of one or more individuals.

Recommendations:

- 4.1.1 The OAG recommends HRM Administration maintain one master file of all relevant information relating to Trade Centre Limited's operation of the Halifax Metro Centre. This file should be maintained by a particular staff position and not be tied to an individual staff member. The OAG also recommends the file be organized so that the information relevant to a particular issue is easy to identify and locate within the file.

Management Response:

Agree – Throughout the development of the interim management agreement, internal business processes and the assignment of responsibilities are being reviewed and documented. Appropriate file maintenance will be part of this process.

- 4.1.2 The OAG recommends all communications around major changes or initiatives with respect to business lines or business models, be documented by HRM and retained in order to support and explain the decision(s) made, if necessary. In addition, a well-documented file will allow for evaluation in the future of actual vs. expected results. This will also allow the results of past decisions to improve the evaluation process for future decisions.

Management Response:

Agree – Throughout the development of the interim management agreement, internal business processes and the assignment of responsibilities are being reviewed and documented. Appropriate file maintenance will be part of this process.

4.2 Fiduciary Responsibilities and Possible Conflicting Business Interests

Throughout this review, it has been noted there were circumstances where, it might appear to some, Trade Centre Limited acted in their own best interests. These circumstances create a level of concern for the OAG. The reasons surrounding the concern relate to the form and conditions of the agreement between the Province of Nova Scotia, Halifax Regional Municipality and Trade Centre Limited. The clause governing the management of the Halifax Metro Centre is by all standards devoid of specifics and essentially only agrees the Halifax Metro Centre will be managed. Specifically the agreement states in clause 4 “Upon execution of this Agreement Metro Centre shall be managed and operated by Trade Centre and the City shall continue to finance the operation of Metro Centre (and all profits from the Metro Centre shall accrue to the account of the city – added in handwriting). Notwithstanding the foregoing, the financial records and accounts of Metro Centre will be kept separate from those of the Convention Centre”.

In the view of the OAG, in an agreement such as this one, the party who could reasonably be seen to have a potential conflict in the arrangement due to their access to information and the power to make decisions (Trade Centre Limited in this case) arguably has a higher fiduciary responsibility. Moreover, given the broad span of authority and decision making ability of Trade Centre Limited, the duty of care and fairness in this case would likely be heightened. In the view of the OAG, in such a situation, the party in the position of trust (Trade Centre Limited) would likely need to ensure there was significant, substantive communication to ensure the party to which they had a duty was fully aware of any actions being taken which could benefit one party at the expense of the other.

In this situation, the OAG cannot help but note that this open, transparent duty of care appears to be missing with respect to the transfer of the ticketing operations. Arguably, it is not enough to simply brief a Board of Directors which has minority representation from HRM about the plan to move operations (the OAG was not able to confirm, through documented minutes, this discussion occurred), or to have “informal” discussions with the then CAO of HRM about possible changes to ticketing operations. Instead, due to the fiduciary responsibilities with the resulting duty of care and fairness relationship, Trade Centre Limited likely had an obligation

While this is concerning, it does not change the nature of this report as it is focused on how to improve the processes and procedures used and is not focused on placing blame for the situation which occurred.

to ensure HRM:

1. was fully aware of Trade Centre Limited's proposed actions to move the ticketing operations
2. understood the ramifications to Halifax Metro Centre (and therefore HRM)
3. was provided with complete, accurate and consistent information along with projections and business plans for future regional operations, and
4. specifically approved the actions, within the appropriate signing authority levels.

During the course of the review, Trade Centre Limited senior staff (and former senior staff), as well as then senior HRM officials, provided varied and conflicting accounts and/or opinions regarding both the level and timing of involvement of HRM Administration regarding the changes implemented. Unfortunately, there is no documentation available to substantiate the individual recollections and as such, the OAG is unable to say with authority when HRM Administration first became aware of the change or proposed change. While this is concerning, it does not change the nature of this report as it is focused on how to improve the processes and procedures used and is not focused on placing blame for the situation which occurred.

Recommendation:

- 4.2.1 The OAG recommends HRM consider if Trade Centre Limited had conflicting business interests related to the transfer of box office operations and if they acted with the appropriate level of duty of care or fiduciary duty, and if not, determine what possible recourses exist for HRM.

Management Response:

Agree – HRM's Legal Services business unit will review the circumstances related to the transfer of box office operations and assess, to the extent possible, the level of fiduciary duty exercised. Possible avenues of recourse will be reviewed, if determined to be necessary.



July 9, 2012

Larry Munroe
HRM Municipal Auditor General
Belmont House, Suite 620
33 Alderney Drive
Dartmouth, NS
B3J 3A5

Dear Mr. Munroe:

I have reviewed the report **Review of the Transfer of Box Office Operations from the Halifax Metro Centre to Trade Centre Limited** and am in general agreement with its content and the overall direction proposed.

The attached document outlines HRM Administration's responses to each of the recommendations raised in your report. In summary, the work plan to address these recommendations will encompass four general areas of emphasis:

- (1) Comprehensive review of the operations of Halifax Metro Centre, including a specific review of the box office operations, the commission structure and the cost allocation process in place - This review and any necessary follow-up will be carried out under the direction of HRM's Chief Financial Officer.
- (2) Finalization of the agreement with Trade Centre Limited relating to the on-going operations and management of Halifax Metro Centre - As currently drafted, this agreement outlines the relationship between the parties, specific levels of authority, reporting requirements and performance measures. It is being drafted in consultation with HRM Legal Services as well as the Provincial Department of Justice and will be coming forward to the Audit and Finance Standing Committee and Regional Council in the coming months for final approval and ratification.
- (3) HRM Oversight of the Agreement – Throughout the development of the management agreement, internal business processes and the assignment of responsibilities and accountability for dealing with issues arising under the management of Halifax Metro Centre are being reviewed and documented. Part of the on-going oversight will be the introduction of consolidated quarterly financial reporting starting in fiscal 2012/13 and budgets from agencies, boards and commissions being incorporated into HRM's budget and business planning process for fiscal 2013/14.

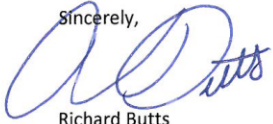
Chief Administrative Office
PO Box 1749, Halifax, NS B3J 3A5
Tel: (902) 490-4026 Fax: (902) 490-4044

- 2 -

- (4) Review of the Governance and Board structure as it relates to Halifax Metro Centre - In conjunction with Trade Centre Limited, HRM Legal Services will review options for the current Trade Centre Limited board as it relates to the management and operations of Halifax Metro Centre. This review will include documentation of the roles and responsibilities of representatives serving on a Board of Directors on behalf of HRM and will take into consideration the ongoing work on the Economic Development governance review.

If you have any questions or require further clarification, please contact me directly.

Sincerely,



Richard Butts
Chief Administrative Officer

- C. Greg Keefe, Director of Finance and ICT
Marian Tyson, Acting Director of Legal Services
Pam Caswell, Manager, Corporate Reporting & Financial Policy
Michael Labrecque, Deputy Chief Administrative Officer
Brad Anguish, Director, Community and Recreation Services

Encl.

Chief Administrative Office

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Halifax
Nova Scotia
Canada

TRADE CENTRE LIMITED

HALIFAX
METRO CENTRE

WORLD TRADE
&
CONVENTION
CENTRE

EXHIBITION
PARK

WORLD TRADE
CENTRE
ATLANTIC CANADA

TICKET
ATLANTIC

July 16, 2012

Via Email

Larry Munroe
Auditor General
Halifax Regional Municipality
P. O. Box 1749
Halifax, Nova Scotia
B3J 2V9

Dear Mr. Munroe:

On behalf of Trade Centre Limited, management and the Board of Directors offer the following response to the Halifax Regional Municipality Auditor General's Review of the Transfer of Box Office Operations from the Halifax Metro Centre to Trade Centre Limited.

Trade Centre Limited (TCL) is a provincial crown corporation that reports to the Minister of Economic and Rural Development and Tourism and is governed by a Board of Directors. TCL officers and employees operate under policies and procedures established through this governance structure.

The Halifax Metro Centre is owned by the Halifax Regional Municipality (HRM) and managed by TCL under an agreement established in 1982. Since becoming manager, TCL has followed the 1982 agreement and managed the Halifax Metro Centre for the benefit of HRM.

TCL management and the Board of Directors are committed to working with HRM to address the auditor general's recommendations. TCL agrees that the 1982 agreement governing Halifax Metro Centre operations requires further clarification to better detail responsibilities, procedures and levels of authority. A draft management agreement overseeing the Halifax Metro Centre has been developed jointly with HRM. The draft agreement outlines the relationship between HRM and TCL, delineates levels of authority, reporting requirements, and performance measures. TCL will continue to work collaboratively with HRM to finalize this new agreement.

As the operator of the Halifax Metro Centre, TCL remains committed to managing the asset in the best interest of HRM and will work with the municipality to implement changes as required as a result of this report.

Scott Ferguson
President & CEO
Trade Centre Limited

Justin McDonough
Chair, Board of Directors
Trade Centre Limited