TO: Mayor and Members
General Issues Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: February 14, 2011

SUBJECT/REPORT NO:
Independent External Audit Review of HECFI Operations (CM11002) (City Wide)

SUBMITTED BY:
Chris Murray
City Manager

PREPARED BY:
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SIGNATURE:

RECOMMENDATION

(a) That Phase One of the Independent External Audit Review of HECFI Operations be approved and funded from the HECFI Reserve in an amount to not exceed $90,000.

(b) That the Terms of Reference for the Independent External Audit Review of HECFI Operations (Appendix A to report CM11001) be approved.

(c) That the requirements of the Purchasing Policy Bylaw be waived in the interests of rapid completion of the Review.

(d) That staff be directed to seek responses from no less than three major accounting firms or their consulting subsidiaries including a Scope of Work and a budget for completion of the tasks set out in the Terms of Reference. That value for money rather than lowest price be part of the evaluation criteria.

(e) That following receipt and evaluation of the responses, the City Manager be authorized to negotiate with one, or more of the firms, and retain a firm to complete the review and to execute a contact for the work in a form satisfactory to the City Solicitor.
In response to Council's December 15, 2010 direction that an Independent External Audit Review of HECFI Operations be conducted, a multi-disciplinary co-ordinating team composed of the Internal Auditor, City Treasurer, City Solicitor and the Director of Corporate Initiatives has been created. The staff team have prepared Terms of Reference (Appendix A to Report CM11002). The review will be done in two phases. The first phase will be the review of the operation as detailed on Appendix A to Report CM11002, after which a report will be written for Council's consideration. This report will outline options available to Council for further action. In order to expedite the completion of the requisite audit, staff recommend that Council authorize the retention of a consulting group/team, to a ceiling of $90,000 (for Phase One) from the HECFI Reserve, outside of the City's usual procurement policies. Under normal circumstances staff would be required to issue an RFP to solicit bids from the public. Staff is requesting that they seek informal bids instead. Staff will solicit a minimum of three quotes from major accounting firms or their Consulting Subsidiary.

In keeping with Council's direction in December of 2010, staff propose that upon completion of the Audit, that staff report back to Council with a process to privatize HECFI through a Request for Tender Process not overlooking a potential public bid.

**Alternatives for Consideration – Not Applicable**

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<tr>
<th>FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)</th>
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<td><strong>Financial:</strong> The direction of Council will require an expenditure which, at this point has not been confirmed. A 2004 review of HECFI by KPMG was completed for approximately $90,000. It is proposed that Council authorize access to the HECFI Reserve for the project costs in an amount to not exceed $90,000.</td>
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<td><strong>Staffing:</strong> A multi-disciplinary internal co-ordinating team composed of the Internal Auditor, City Treasurer, City Solicitor and Director of Corporate Initiatives will retain the external consulting group/team, manage the review and coordinate subsequent reporting to Council.</td>
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<td><strong>Legal:</strong> N/A</td>
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HISTORICAL BACKGROUND  (Chronology of events)

City Council, at its meeting held on December 15, 2010, approved Motion 7.2 which reads as follows:

7.2  Motion respecting Audit of Hamilton Entertainment and Convention Facilities Incorporated

(a) That an Independent External Audit Review be conducted of the HECFI operations;

(b) That upon completion of the Audit that staff report back to Council with a process to privatize HECFI through a Request for Tender Process not overlooking a potential public bid.

POLICY IMPLICATIONS

Staff propose to seek responses from the large consultant practices such as Deloitte, PricewaterhouseCoopers, Ernst & Young, Grant Thornton and KPMG rather than send out an RFP in accordance with the City's Purchasing Policy.

RELEVANT CONSULTATION

This project is being managed through the City Manager's Office. A project team consisting of the City Auditor, City Treasurer, City Solicitor and the Director of Corporate Initiatives was created in response to Council's direction in December. The proposed recommendations have been reviewed and endorsed by both the project team and the Senior Management Team. The City Manager's Office has sought the cooperation of HECFI for the requisite review through the Board Chair.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

N/A

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

N/A

**Skilled, Innovative & Respectful Organization**
- A culture of excellence

**Financial Sustainability**
- Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

**Intergovernmental Relationships**
- Maintain effective relationships with other public agencies

**Growing Our Economy**
- A visitor and convention destination

**APPENDICES / SCHEDULES**

Appendix A - Terms of Reference

AZ/db
Attach. (1)
HECFI REVIEW TERMS OF REFERENCE

PHASE ONE – FINANCIAL REVIEW

A Financial Review of HECFI shall be conducted and consist of the following:

- Evaluation of the economy and effectiveness of the current structure and organization as well as the efficiency of key processes and management practices.
- A review of major Board decisions (over the last # years).
- A review of the decision making authority of staff and Board and interaction thereof.
- A five year review and comparison of all revenues with explanations of material variances from budget.
- A five year review and comparison of all net costs and thus profitability for each area of business (cost centres), with explanations of material variances.
- Development and calculation of key financial indicators to measure HECFI performance over the past five years.
- A review of the strategic plan (goal setting), its effectiveness and achievements over the last five years.
- A review and assessment of the impacts of any / all restrictions imposed by City.
- Review impacts of City Cost Allocations including costs not currently charged (i.e. utilities).
- A financial outlook (pro forma) outlining the requirements for a break even business case if possible (no restrictions).
- Review alternate operating options including but not limited to the sale of all or parts of HECFI facilities, lease of all or parts of the HECFI Facilities.
- Assess other similar facilities to determine other operating arrangements.

Report to GIC – Decision point, proceed or stop

PHASE TWO – ALTERNATE OPERATING SCENARIOS

- Prepare and issue a Request for Interest (RFI) or Expression of Interest for the purchase or lease of all or parts of HECFI facilities.
- Summarize options in a report to the GIC.

Report to GIC – Decision point, proceed or stop

- Based on GIC discussions and direction, negotiate a tentative agreement with respect to the future operation of HECFI facilities for approval of City Council.