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# 5 Trade Centre Limited

## Summary

Overall, the Market Projections Report prepared by Trade Centre Limited in 2010 to support government investment in the new convention centre lacks the appropriate analysis and rigor expected for such a significant proposal. We expected a much more comprehensive analysis supporting such aggressive growth targets. Important industry realities have not been clearly addressed. We recommended that the Executive Council Office obtain an independent second opinion on the market projections for the new convention centre.

We also found financial and operational activities examined during our audit were not appropriately managed. Trade Centre Limited does not have an adequate internal control framework or sufficiently rigorous financial management practices. This contributed to a number of the control deficiencies we found. We identified control weaknesses and instances of noncompliance related to the management of entity revenues and expenses.

The documentation supporting the rationale for the allocation of costs between Trade Centre Limited and the Halifax Metro Centre is insufficient and we found errors in the allocations. Pricing guidelines have not been provided to sales staff to ensure corporate objectives are being achieved and event results are not adequately monitored.

Trade Centre Limited does not have adequate processes for the approval of travel and business expenses. The CEO's expenses were not reviewed and approved, and a number of paid claims were not supported by appropriate documentation. Trade Centre Limited's business travel and expense policy is not consistent with the government travel policy.

Trade Centre Limited does not have adequate processes to ensure the procurement of goods and services complies with applicable policies and provides value for money. We identified purchases in which Trade Centre Limited and government procurement policies were not followed. The Trade Centre Limited procurement policy has insufficient provisions for situations in which alternative procurement procedures are necessary.

We found regular financial and operational reporting to the Board is adequate.

# 5 Trade Centre Limited

## Background

- 5.1 Trade Centre Limited is a provincial crown corporation which is accountable to the Minister of Economic and Rural Development and Tourism. Its mission is to create economic and community benefits by bringing people together in Halifax and Nova Scotia. The President and Chief Executive Officer (CEO) is responsible for the operations of Trade Centre Limited and is accountable to a twelve-member Board of Directors.
- 5.2 Trade Centre Limited consists of six business units. Those units are described below along with their financial results for 2007-08 to 2010-11 before depreciation and taking into consideration government funding. In addition, Trade Centre Limited has an agreement with the Halifax Regional Municipality to operate and manage the Halifax Metro Centre.
- 5.3 The World Trade and Convention Centre has approximately 50,000 square feet of convention and meeting space in downtown Halifax. It hosts between 550 and 600 events annually. Revenues are earned mainly from room rentals and food and beverage purchases.

World Trade and Convention Centre	2007-08	2008-09	2009-10	2010-11
Net profitability	(\$2,325,932)	(\$1,324,633)	(\$1,639,882)	\$4,017,322
Less: Halifax Regional Municipality funding	554,099	570,168	570,758	571,899
Provincial funding	–	99,000	49,000	<sup>(1)</sup> 4,849,000
Total government funding	554,099	669,168	619,758	5,420,899
Net profitability without government funding	(\$2,880,031)	(\$1,993,801)	(\$2,259,640)	(\$1,403,577)

(1) This figure includes a one-time operating grant of \$4.8 million.  
 (2) These figures are unaudited. They were provided by Trade Centre Limited.

- 5.4 Exhibition Park is a 102,557 square foot, four-building complex outside downtown Halifax used for trade shows, public shows, dinners, weddings, exhibitions, and other types of events.

Exhibition Park	2007-08	2008-09	2009-10	2010-11
Net profitability	(\$664,638)	(\$551,550)	(\$533,887)	(\$368,022)
Total government funding	–	–	–	–
Net profitability without government funding	(\$664,638)	(\$551,550)	(\$533,887)	(\$368,022)

(1) These figures are unaudited. They were provided by Trade Centre Limited.

5.5 The World Trade and Convention Centre Office Tower is rented out to tenants, primarily provincial government entities.

World Trade and Convention Centre Office Tower	2007-08	2008-09	2009-10	2010-11
Net profitability	\$1,143,981	\$923,869	\$1,307,769	\$1,355,352
Total government funding	–	–	–	–
Net profitability without government funding	\$1,143,981	\$923,869	\$1,307,769	\$1,355,352

(1) These figures are unaudited. They were provided by Trade Centre Limited.

5.6 Ticket Atlantic provides ticket purchasing services for events at the Halifax Metro Centre and other venues. It sells tickets for up to 400 events annually; Trade Centre Limited earns a service charge for each ticket sold.

Ticket Atlantic	2007-08	2008-09	2009-10	2010-11
Net profitability	\$348,118	\$881,228	\$257,786	(\$81,006)
Total government funding	–	–	–	–
Net profitability without government funding	\$348,118	\$881,228	\$257,786	(\$81,006)

(1) These figures are unaudited. They were provided by Trade Centre Limited.

5.7 The World Trade Centre Atlantic Canada is an international trade organization to create new connections and business opportunities for Atlantic Canadian businesses looking to be more globally competitive.

World Trade Centre Atlantic Canada	2007-08	2008-09	2009-10	2010-11
Net profitability	(\$409,738)	(\$371,646)	(\$16,324)	(\$216,062)
Total government funding	–	–	–	–
Net profitability without government funding	(\$409,738)	(\$371,646)	(\$16,324)	(\$216,062)

(1) These figures are unaudited. They were provided by Trade Centre Limited.

5.8 Trade Centre Limited Major Events works in collaboration with other Trade Centre Limited business units, strategic partners in the community, and governments to attract new major events for the province (for example Brier, Canada Winter Games, international hockey).

Trade Centre Limited Major Events	2007-08	2008-09	2009-10	2010-11
Net profitability	(\$328,108)	\$182,052	(\$20,170)	(\$183,252)
Less: Provincial funding	–	–	300,000	300,000
Federal funding	110,000	–	241,117	242,882
Total government funding	110,000	–	541,117	542,882
Net profitability without government funding	(\$438,108)	\$182,052	(\$561,287)	(\$726,134)

(1) These figures are unaudited. They were provided by Trade Centre Limited.

(2) Effective fiscal 2009-10, provincial and federal funding relates to the Events Nova Scotia program which Trade Centre Limited manages on behalf of the government partners.

5.9 The following is a financial summary of operations for Trade Centre Limited, before depreciation, taking into consideration amounts which were not allocated among business units noted above and the impact of government funding.

Total for Trade Centre Limited	2007-08	2008-09	2009-10	2010-11
Net profitability	(\$2,150,479)	(\$110,210)	(\$622,559)	\$4,669,252
Less: HRM funding	554,099	570,168	570,758	571,899
Provincial funding	–	99,000	349,000	(1) 5,149,000
Federal funding	110,000	–	241,117	242,882
Total government funding	664,099	669,168	1,160,875	5,963,781
Net profitability without government funding	(\$2,814,578)	(\$779,378)	(\$1,783,434)	(\$1,294,529)

(1) This figure includes a one-time operating grant of \$4.8 million.

(2) These figures are unaudited. They were provided by Trade Centre Limited.

5.10 After taking into consideration government funding, Trade Centre Limited has incurred an operating loss for the past four years. In 2011-12, Trade Centre Limited budgeted an operating deficit of \$268,700 before depreciation; its actual result was an operating deficit of \$32,335 before depreciation.

5.11 As noted in the 2011-12 business plan, Trade Centre Limited's goal is to approach a breakeven position before depreciation. Government provided Trade Centre Limited with a directive requiring they breakeven before depreciation for the 2012-13 fiscal year.

5.12 Trade Centre Limited has 100 salaried staff; it also employs hourly staff as required based on levels of activity.



- 5.13 For March 31, 2011, Trade Centre Limited reported holding 793 events with 623,898 attendees and \$72.2 million in direct expenditures. The accuracy of these numbers is discussed later in this chapter. Trade Centre Limited management indicated these events generated economic spinoffs of \$46 million in incremental expenditures and \$4.2 million in provincial tax revenue. These figures include Halifax Metro Centre statistics as well. Ticket Atlantic reported 492 sale events and the average occupancy of the Office Tower was 100%. For March 31, 2011, Trade Centre Limited reported \$18,722,156 in revenues and \$15,699,734 in expenses.
- 5.14 Trade Centre Limited is also an advisor to government on the new convention centre in Halifax. The province has committed \$56 million, the federal government \$51 million, and Halifax Regional Municipality \$56 million toward the convention centre portion of a planned \$500 million project by Rank Inc. to build a financial centre, hotel complex, and retail and public space in downtown Halifax. Trade Centre Limited prepared market projections for the new convention centre. Trade Centre Limited projected the new facility would host 6,800 events, 2.2 million visitors and inject \$750 million of direct expenditures into the local economy during its first 10 years of operation.

## Audit Objectives and Scope

- 5.15 In the fall of 2012, we completed a performance audit of Trade Centre Limited. The audit was conducted in accordance with Sections 18 and 21 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants.
- 5.16 The purpose of this audit was to determine if there are processes and procedures to adequately manage Trade Centre Limited.
- 5.17 The objectives of this audit were:
- to review and assess certain aspects of financial and operational management of Trade Centre Limited including financial and operational reporting and monitoring, controls over revenues and expenses, and travel and other staff related expenses;
  - to assess whether Trade Centre Limited has adequate processes to monitor and assess the performance of senior management and staff;
  - to assess whether Trade Centre Limited has processes to ensure the procurement of goods and services complies with applicable policies and provides for value for money; and
  - to review and assess the process and assumptions used to develop the market projections for the new convention centre.

- 5.18 Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement using both internal and external sources. Criteria were accepted as appropriate by Trade Centre Limited's senior management.
- 5.19 Our audit approach included interviews with Trade Centre Limited staff, management and Board members; review of systems and processes and testing certain processes and key controls; and examination of policies, minutes and any other documentation deemed necessary. Our audit period included activities conducted primarily between April 1, 2010 and September 30, 2011.

## Significant Audit Observations

### Financial and Operational Reporting to the Board

#### Conclusions and summary of observations

Trade Centre Limited's financial and operational monitoring and reporting to the Board is adequate. The reporting covers all the significant goals, operations and responsibilities of the Board. The information is timely and there is opportunity for discussion and challenge by Directors. We did find one error in the 2010-11 Annual Report which understated the number of events held during the year.

- 5.20 *Reporting* – The Board meets regularly, approximately every two months. Financial results are reviewed and discussed. Information provided includes comparisons of financial budgets to actual and forecasted results as well as a comparison to the prior year. Quarterly updates on the business plan are also provided. The CEO makes a regular presentation at each Board meeting providing an update on matters of interest to the Board. The Annual Report is also an important source of information for the Board. It provides a summary of key activities during the year, including the estimated economic impact of Trade Centre Limited events. Board members have the opportunity to discuss and challenge the information presented.
- 5.21 We selected a sample of information reported to the Board and found the information was generally accurate. We did find one figure which was incorrect. The 2010 -11 Annual Report indicates there were 793 events held during the year. There were actually 804 events held, a difference of 11 events. Staff indicated that a sector of events was missed; in this case the economic impact of that sector was not significant. There should be sufficient controls in place to ensure the information reported in the Annual Report is accurate.

#### ***Recommendation 5.1***

***Trade Centre Limited should implement a process to review and approve the accuracy of information reported in the Annual Report.***

**Trade Centre Limited Response:**

*Recommendation Complete: TCL already has a comprehensive process in place to review and approve information in the TCL Annual Report, which includes verification of information presented in the Annual Report to all source documents and review and approval of the report by the CEO, CFO, Director of Marketing and Communications, TCL Board Chair, Minister and TCL's external auditors. In 2011, a comprehensive process associated with data collection for economic impact reporting was put in place by management in order to ensure that the Fiscal 2011-12 economic information was accurate.*

*The one incorrect event figure identified by the OAG was due to an error in data collection associated with the source document for economic impact reporting. The error resulted in an immaterial understatement of number of events (11 of 804 events; 1.4%) which does not impact a reader's assessment of the information presented in this area or the Annual Report as a whole. TCL is unaware of any other inaccuracies in the information reported in the 2010-11 Annual Report.*

## Revenues and Expenses

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### Conclusions and summary of observations

Trade Centre Limited does not have an adequate internal control framework which has contributed to a number of the control deficiencies noted in this report. We found a number of weaknesses and instances in which controls did not operate as intended. The documentation supporting the rationale for the allocation of costs between Trade Centre Limited and Halifax Metro Centre is insufficient. We also noted errors in the actual costs allocated. Pricing guidelines have not been provided to sales staff to ensure corporate objectives are being achieved and event results are not adequately monitored. We also noted a number of instances in which there was a lack of appropriate documentation; this was a common issue identified throughout the audit. We recommended that Trade Centre Limited conduct a comprehensive assessment of its internal control framework and implement changes as required.

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5.22 *Controls over revenues and expenses* – We reviewed processes and controls in place for Trade Centre Limited major revenue streams including event revenues, Ticket Atlantic service charge revenues and lease revenues. We examined a sample of expenses related to various business units. The findings detailed in the following two paragraphs resulted from our examination of 45 expense transactions and 31 revenue transactions. In addition, we examined a sample of revenues and expenses directly related to Halifax Metro Centre but only to assess whether they were recorded in the correct entity. This is discussed later in this chapter.

5.23 As a result of our detailed testing we identified a number of control weaknesses including the following.

- Limited guidance or other documentation is available respecting which financial and operational controls are to be implemented and how those controls should be implemented.
- There is no process to ensure key controls are working as intended.
- There is a lack of an appropriate segregation of duties related to certain accounts receivable and payable functions.
- Monthly accounts receivable reconciliations are not reviewed and approved by management.
- No reconciliations were completed of the advanced ticket sales general ledger account to the system which records ticket sales.
- There is no evidence that managers review event orders and banquet checks for completeness and accuracy.
- There is no evidence that the mathematical accuracy of consumption reports is being reviewed.
- Promoter rebates were not verified prior to payment.
- The documentation supporting the ticket service charge amount is not adequate.
- There is no evidence that the accuracy of service charges entered into the computer system was reviewed and approved.
- There is no evidence that the allocation of operating costs charged to tenants was reviewed.
- Blank cheques are not appropriately safeguarded.
- There was no review and approval of the reconciliation of vendor statements to the accounts payable records.
- The documented signing authorities for purchases, payments and contracts need to be reviewed and updated to ensure they are complete and accurate.

5.24 Our detailed testing of a sample of transactions also identified instances in which control procedures failed to operate as intended.

- One bank reconciliation was not reviewed and approved.
- A client was overbilled as a result of a mathematical error on a consumption report.
- Six event orders were not signed by the client as required.

- Two journal entries were not approved as required.
- 15 invoices were not approved for payment as required.
- Five purchase orders were issued after the goods or services were obtained.
- Two items were purchased without the required purchase order.
- There was no verification of credit card transaction fees which were electronically withdrawn from the bank.
- We identified ten invoices which lacked appropriate supporting documentation. In one instance, the invoice was \$1,489 greater than the purchase order and there was no evidence the discrepancy was investigated.

5.25 The number and significance of the weaknesses and deficiencies identified during our testing demonstrate that Trade Centre Limited does not have an adequate internal control framework in place. We found a number of control weaknesses. Trade Centre Limited needs to conduct a comprehensive assessment of its internal control systems. This assessment should consider the basic requirements of an internal control framework including the identification and analysis of risks, controls necessary to mitigate identified risks, and the processes required to monitor whether controls are operating as intended. This assessment and implementation of required changes should be a priority for Trade Centre Limited.

***Recommendation 5.2***

***Trade Centre Limited should conduct a comprehensive assessment of its internal control systems including the identification and analysis of financial and operational risks, controls necessary to mitigate residual risks and the design of an effective monitoring process.***

***Trade Centre Limited Response:***

*TCL believes that the financial and operational controls and processes that TCL has in place including compensatory controls have been adequate to provide reasonable assurance that reliable financial information is produced and that operations are managed effectively, however, TCL will undertake an assessment of its internal control systems.*

***Recommendation 5.3***

***Trade Centre Limited should document the internal control framework resulting from the assessment of its internal control systems. The framework should be implemented and monitored for compliance.***

***Trade Centre Limited Response:***

*TCL believes that the financial and operational controls and processes that TCL has in place including compensatory controls have been adequate to provide reasonable*

*assurance that reliable financial information is produced and that operations are managed effectively. Of the control weaknesses identified by the OAG, TCL comments that many of these relate to lack of documented evidence such as sign off as it relates to review or approval of certain processes, although it would be management's position that appropriate review did take place. TCL is not in agreement with the OAG's assessment of control weaknesses associated with accuracy of promoter rebates and reconciliation of advanced ticket sales.*

*TCL will document and implement a sustainable internal control framework and monitoring process based on any significant findings associated with the proposed internal control system assessment discussed in OAG Recommendation 5.2.*

- 5.26 *Expense allocations* – Common expenses are allocated within Trade Centre Limited between the various business units in order to better assess their performance. Trade Centre Limited also allocates common costs to Halifax Metro Centre (owned by the Halifax Regional Municipality) as required by the management contract. For the fiscal year ended March 31, 2011, expenses allocated between Trade Centre Limited owned business units totaled \$5.3 million or 38% of total expenses.
- 5.27 A significant common cost shared between Trade Centre Limited and Halifax Metro Centre relates to Trade Centre Limited salaried employees. In the 2011-12 budget, salaries totalling \$3.3 million for 48 Trade Centre Limited staff were allocated between the two entities. Of this amount, \$1.7 million was allocated to Trade Centre Limited and \$1.6 million to Halifax Metro Centre. It is important that these costs are allocated accurately; otherwise one entity may pay for costs it has not incurred which would impact the bottom line of both entities.
- 5.28 There is no documented support for the appropriateness of the expense allocation between Trade Centre Limited and Halifax Metro Centre and the percentages used internally to allocate shareable costs among business units. For example, management told us that the cost for natural gas is allocated 50% to each of Trade Centre Limited and Halifax Metro Centre based on usage estimated by management. There was no support for how the usage was estimated. We were also informed that the salary allocations between Trade Centre Limited and Halifax Metro Centre are based on estimates of the percentage of each individual's work with each entity. Management indicated this estimate was determined in consultation with applicable senior management. However, there is no documentation from senior managers supporting what the percentages should be. As a result, we could not conclude on whether the allocation of costs was accurate and based on an adequate analysis.

***Recommendation 5.4***

***Trade Centre Limited should have an adequate analysis to support the allocation of expenses between Trade Centre Limited and Halifax Metro Centre, as well as internally among Trade Centre Limited business units. This analysis should be documented.***

**Trade Centre Limited Response:**

*It is TCL's opinion that a reasonable approach to allocation of shared services and expenditures has been applied on a consistent basis to its internal business areas and Halifax Metro Centre.*

*In conjunction with ongoing work with the Halifax Regional Municipality (HRM) to finalize a new operating agreement for the Halifax Metro Centre, TCL will document and formalize an approach to allocations for shared services and expenditures between TCL and Halifax Metro Centre which will result in an approved TCL allocation policy and protocol.*

5.29 The salary allocations between Trade Centre Limited and Halifax Metro Centre are established each year through the budget process. We compared the allocation percentages of the 48 staff approved in the 2011-12 budget to the actual percentage allocations recorded in the general ledger. We identified 16 staff whose approved budget allocation percentage was different from the actual percentage used from April to October 2011. Management told us they did not change the percentages to those approved in the budget because of an anticipated restructuring within Trade Centre Limited. Following the restructuring, the salary allocations were updated. However, there was no entry to correct the April to October allocations for 16 staff. There were also two staff whose salary allocations did not change during the restructuring; those salaries were improperly allocated for the entire year. This error resulted in Trade Centre Limited under billing salary costs to Halifax Metro Centre by approximately \$43,000.

**Recommendation 5.5**

***Trade Centre Limited should ensure actual salary allocations agree with the approved allocations in the budget effective April 1 each year.***

**Trade Centre Limited Response:**

*Recommendation Complete: This recommendation has already been implemented after the audit period.*

*Effective April 1, 2012 ensuring salary allocations based on the approved budget are incorporated in the payroll system is part of the TCL budget process.*

5.30 When salary allocations are changed, the controller completes a change form which lists the employee, the existing allocation, and the new percentage. The form does not provide an explanation for the change and does not require further approval. The original salary allocations are approved by the Board through the budget process. If any changes are required, the reason should be documented and the change form should be approved by the Chief Financial Officer.

**Recommendation 5.6**

***Trade Centre Limited should clearly document the rationale for changes to Halifax Metro Centre salary allocations. The changes should be approved by the Chief Financial Officer.***

***Trade Centre Limited Response:***

*Recommendation Complete: This recommendation has already been implemented after the audit period.*

*While changes to Halifax Metro Centre salary allocations from approved budget are kept to a minimum, effective fiscal 2012-13, the agreed change process now requires that the CFO sign off on any changes noting the reason for the change.*

- 5.31 *Management of operations* – During our audit we identified a number of improvements which could be made in the way Trade Centre Limited operations are managed. These are discussed further in the paragraphs below. Addressing these areas for improvement will help ensure corporate objectives are met.
- 5.32 *Discounts on event revenue* – Discounts are provided for events held at the World Trade and Convention Centre and Exhibition Park. The discount amount is at the discretion of the sales managers; it can cover items such as free or reduced rent and ancillary services. There are no guidelines provided to sales managers to ensure corporate objectives are met when pricing events. Such guidelines would document Trade Centre Limited’s expectations of sales staff when pricing various sizes and types of events.

**Recommendation 5.7**

***Trade Centre Limited should establish event pricing guidelines for sales staff.***

***Trade Centre Limited:***

*TCL has guidelines around event pricing for WTCC and Exhibition Park including standard rate cards for both room rental and food and beverage menu pricing that are used by sales staff as they negotiate event contracts. Any discounts from standard rates are clearly documented in the approved event contract.*

*TCL will formalize its general practice around event pricing to develop a policy and protocol establishing pricing strategies for various types and sizes of events.*

- 5.33 *Event profit/loss analysis* – We found Trade Centre Limited’s finance department is not completing a profit/loss analysis of events held at World Trade and Convention Centre and Exhibition Park on a regular basis. During our audit period (18 months), they completed an analysis of only six events. There were 804 events during 2010-11. Staff told us the events were selected randomly to understand the profitability for different types of events, and which types of business generate the most net

contribution towards fixed overhead. We believe all significant events should be assessed so that corrective actions can be taken in a timely manner.

**Recommendation 5.8**

***Trade Centre Limited should complete a profit/loss analysis for significant events and take action as appropriate.***

***Trade Centre Limited Response:***

*TCL routinely reviews key ratios on all of its event operations to ensure appropriate levels of financial contribution as part of its financial review processes. The hosting of multiple simultaneous events in the facility adds significant complexity to identifying specific costs and completing an accurate profit /loss analysis on an individual event basis.*

*TCL will review current industry practices and processes around individual event profit/loss analysis for convention centres of other like-size facilities and address the OAG recommendation based on its review of these industry practices.*

5.34 *Ticket Atlantic base service charge* – Ticket Atlantic levies a base service charge on each ticket they process. There is no documented analysis to demonstrate this is the optimum service charge. Staff indicated the rate was determined based on a blend of cost recovery, as well as what the market will bear. Due to the lack of documentation, we concluded that the service charge amount is not supported.

**Recommendation 5.9**

***Trade Centre Limited should analyze and document the rationale for the Ticket Atlantic base service charge.***

***Trade Centre Limited Response:***

*Recommendation Complete: This recommendation has already been implemented after the audit period.*

*The rationale for the current Ticket Atlantic base service charge is documented and the rationale for any future change will be fully supported and documented.*

5.35 *Halifax Metro Centre commission* – Ticket Atlantic pays a \$0.40 per ticket commission for events held at Halifax Metro Centre. There is no formal contract confirming this arrangement and no documented analysis to support the amount. Management indicated this has been the general practice since Ticket Atlantic was created.

**Recommendation 5.10**

***Trade Centre Limited should formalize, with the Halifax Regional Municipality, the Ticket Atlantic per ticket commission to be paid to the Halifax Metro Centre.***

***Trade Centre Limited Response:***

*In conjunction with HRM's review of Halifax Metro Centre operations, TCL has agreed to work with HRM to formalize the Halifax Metro Centre ticket commission arrangement.*

5.36 *Promoter advances* – Trade Centre Limited has a new policy concerning advances paid to promoters. It is designed to limit the risk of loss to Trade Centre Limited. The policy states that the promoter must agree in writing to assume all risks for funds disbursed and repay the funds in full if the event does not proceed. The request must be signed by two Trade Centre Limited staff. We tested two events in which an advance was made after the new policy came into effect. In one instance, the promoter did not agree to assume the risk for the funds disbursed. Neither advance had two signatures by Trade Centre Limited employees as required. In both cases, the amounts involved were not significant.

***Recommendation 5.11***

***Trade Centre Limited should follow its policy on advances to promoters.***

***Trade Centre Limited Response:***

*Recommendation Complete: This recommendation has already been implemented.*

*The existing policy on advances to event organizers is routinely followed and monitored for compliance by TCL. The two advances identified by the OAG were permitted by the policy under the criteria of nominal operational advances and were not significant in terms of the amount of the advance (\$2,000 and \$5,000). The deviations identified by the OAG were around documentation associated with these nominal operating advances which occurred during the transition to the new policy. These deviations were addressed by TCL at the time, with further education of staff on the new policy. To date, there have been no further deviations.*

5.37 *Allocation of common costs to tenants* – Certain of the operating costs for the Office Tower are allocated to tenants as part of their lease agreements. The calculation is based on each tenant's share of the total rentable square footage of the Office Tower. Trade Centre Limited has an internal occupancy report which notes the total rentable square footage of the Office Tower is 127,148 square feet. Most of the leases define the total rentable square footage as 116,190. There is one lease which does not adequately clarify the total rentable square footage to be used. Therefore, we could not determine the correct allocation of operating costs for that lease. Another lease defined the total rentable square footage but there was an error in the allocation which resulted in the tenant overpaying approximately \$800 for 2010-11.

***Recommendation 5.12***

***Trade Centre Limited should allocate operating costs to tenants based on the lease terms. All new leases should define total rentable square footage.***

***Trade Centre Limited Response:***

*TCL has allocated operating costs to tenants consistently based on a formula used since the building opening. TCL will ensure all new office tower leases include a definition of total rentable square footage.*

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## Performance Management

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### Conclusions and summary of observations

During our audit period, Trade Centre Limited did not have adequate processes in place to monitor and assess the performance of senior management and staff other than the CEO beginning in 2011-12. Performance expectations were not clearly documented and performance evaluations were not completed on a regular basis.

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- 5.38 *Monitoring CEO performance* – To help ensure the CEO is effective in fulfilling his roles and responsibilities, it is important that the Board evaluate his performance annually. Performance expectations should be defined at the beginning of the year and include specific measurable targets. The CEO's contract was effective September 29, 2009. There were no documented performance expectations against which he was to be evaluated until March 2011. We were informed there was a delay in evaluating the CEO because the Board wanted to develop an appropriate evaluation tool. The CEO received an appropriate evaluation for the 2011 calendar year.
- 5.39 *Monitoring other senior management and staff performance* – We selected a sample of five staff members to determine if they had documented performance expectations and annual performance evaluations. For 2010-11, we found that none of the five individuals had documented performance expectations; for 2011-12, there were no documented expectations for three of the five.
- 5.40 We also found that performance evaluations were not completed on a regular basis.
- Of the five individuals selected, only one had an evaluation completed for 2010-11.
  - Of the remaining four individuals:
    - one was hired in 2008 and did not receive a formal evaluation until January 2012;
    - one was evaluated in 2008 and not again until January 2012;
    - one individual was evaluated in 2007 and then in January 2012; and
    - one individual was evaluated in 2010 but not again as of February 2012.
- 5.41 Performance evaluations are necessary to ensure that staff are meeting desired performance expectations consistent with corporate objectives. Regular evaluations should be conducted for all staff. Performance evaluations were completed for senior management for calendar 2011. These evaluations could be improved by including an assessment against measurable performance goals and targets.

**Recommendation 5.13**

**Trade Centre Limited should conduct regular performance assessments on senior management and staff which include measurable performance targets and goals.**

**Trade Centre Limited Response:**

*Recommendation Complete: This recommendation has already been implemented after the audit period.*

*TCL introduced a performance appraisal policy, approved by the Board of Directors in March 2012, and is in compliance with this policy, which addresses the recommendation of the OAG. TCL's Board of Directors also developed, approved and implemented a new CEO evaluation model effective March 2011.*

## Travel Expenses and Other Staff-Related Expenses

### Conclusions and summary of observations

Trade Centre Limited does not have adequate processes to appropriately approve travel and business expenses. During our audit period, the CEO's travel and business expenses were not reviewed and approved. We tested a sample of staff and senior management travel claims and identified a number of claims which lacked appropriate documentation supporting the amounts paid. We also found Trade Centre Limited's business travel and expense policy is not consistent with the government travel policy as required.

5.42 *Travel policies* – Trade Centre Limited is required to comply with the government travel policy. Trade Centre Limited has been following its draft business travel and expense policy dated June 2008. The policy has not been reviewed and updated since 2008 and has not been approved by the Board. We assessed the policy for consistency with the government travel policy and found the following inconsistencies.

- The policy allows a \$10 incidental per diem for each day of travel compared to the government policy which allows \$5/day if there is an overnight stay.
- Since 2008, the policy had included a mileage rate of \$0.405/km. The provincial mileage rate changes periodically. Between April 2010 and March 2011, the provincial rate was \$0.3813/km. Effective April 2011, it changed to \$0.4015/km.
- The policy does not include a per diem meal allowance; however management has allowed a per diem of \$55/ day to be claimed. The government policy per diem is \$38/ day.
- The policy does not require an out-of-country travel form to be completed. Government policy requires such a form.

- 5.43 The CEO's internal practice is to pre-approve all business travel and expenses and approve all travel expense claims. This is not currently reflected in Trade Centre Limited's policy. The policy should be consistent with current practice.
- 5.44 The Trade Centre Limited business travel and expense policy only requires that the number of persons being entertained be documented on the travel claim. Noting the names of the persons entertained and the reasons for the entertainment on the travel claim would improve disclosure.

**Recommendation 5.14**

*Trade Centre Limited should update its business travel and expense policy to be consistent with the government travel policy as required. The policy should also be updated to include appropriate documentation requirements and approvals.*

**Trade Centre Limited Response:**

*Recommendation Complete: This recommendation has already been implemented after the audit period.*

*TCL has reviewed and updated its business travel and expense policy and protocols to be consistent with government policy.*

**Recommendation 5.15**

*Trade Centre Limited's updated business and travel expense policy should be approved by its Board and implemented.*

**Trade Centre Limited Response:**

*TCL has implemented its updated business and expense policy effective October 2012. TCL Board of Directors will review and approve the policy at its next meeting in November 2012.*

- 5.45 *Staff business travel and expense testing* – We tested a sample of 30 Trade Centre Limited staff travel expense claims for compliance with both the government travel policy and Trade Centre Limited policy. We found the following instances of noncompliance.
- 5.46 When using a personal credit card, the Trade Centre Limited's policy requires an itemized receipt or an invoice supplied by the establishment indicating payment of the account. This is consistent with the government travel policy. An itemized receipt would provide sufficient support for what was actually purchased to assess reasonableness and appropriateness. We found 23 of 30 travel claims tested included expenses which did not have an itemized receipt submitted. These claims related to 97 individual expenses totaling \$7,282.
- 5.47 For entertainment or hospitality expenses, the Trade Centre Limited policy requires that the claim note the purpose and the number of persons attending. Adequate

disclosure would identify those who were entertained, rather than just the number of people. Of the 23 travel claims tested which included entertainment costs, 16 had expenses which did not indicate the names or number of individuals entertained. This related to 21 individual expenses totaling \$2,901. Additionally, the purpose of the entertainment was not noted for 13 claims related to 24 individual expenses totaling \$1,849.

- 5.48 The Trade Centre Limited Policy requires employees to sign an authorization form for use of their own vehicle on company business to ensure adequate insurance has been obtained. This requirement is not being followed.
- 5.49 The Trade Centre Limited Policy requires travel be approved at least 30 days in advance to help ensure the use of early booking discounts. Of the 28 expense claims tested which included travel costs, 18 were not pre-approved. Of the 10 claims which were pre-approved, seven were not approved at least 30 days prior to travel.
- 5.50 *CEO business travel and expense testing* – We tested 11 of the CEO’s 2010-11 travel expense claims and found the following instances of noncompliance with the government and Trade Centre Limited policies. Itemized receipts were not submitted for all 11 claims related to 98 individual expenses totaling \$6,237. As well, all 11 claims had expenses with no indication of the names or number of individuals entertained. This related to 51 individual expenses totaling \$2,613. Additionally, all claims had expenses which did not indicate the purpose of the entertainment; this related to 78 individual expenses totaling \$3,436.

***Recommendation 5.16***

***Trade Centre Limited should comply with its business travel and expense policy and develop a process to monitor compliance.***

***Trade Centre Limited Response:***

*Recommendation Complete: This recommendation has already been implemented after the audit period.*

*TCL has implemented its updated business travel and expense policy effective October 2012, which includes the process and protocol for monitoring.*

- 5.51 *CEO travel claim approval* – During our audit period, the CEO’s travel expenses were not reviewed and approved. Best practice would suggest that the Board Chair would be the most appropriate person to review, assess the reasonableness of, and approve the CEO’s claims.

***Recommendation 5.17***

***Trade Centre Limited CEO travel expense claims should be reviewed and approved by the Board Chair.***

**Trade Centre Limited Response:**

*Recommendation Complete: This recommendation has already been implemented after the audit period.*

*CEO expenses were reviewed consistently under the TCL process used with respect to all staff related travel and other expenses. Effective November 2011, TCL updated its process for CEO expense claim review to incorporate the approval of all CEO claims by the Board Chair or designate.*

## Procurement

### Conclusions and summary of observations

Trade Centre Limited does not have adequate processes to ensure the procurement of goods and services complies with applicable policies, including ensuring value for money is achieved. During our testing, we identified purchases for which the Trade Centre Limited procurement policy and government procurement policy were not followed. The Trade Centre Limited procurement policy has insufficient provisions for situations when alternative procurement procedures are required.

5.52 *Procurement policies and other requirements* – Trade Centre Limited is required to apply the principles and objectives of public procurement as described in the Province of Nova Scotia Sustainable Procurement Policy. These include the requirement for open, fair, and transparent procurements which maximize competition and value. We reviewed Trade Centre Limited’s procurement policy to determine if it is consistent with the government procurement policy. We found Trade Centre Limited’s policy has no detailed provisions for situations when alternative procurement procedures are required.

5.53 Through discussions with Government Procurement Services staff, we also determined that Trade Centre Limited is required to complete an alternative procurement form when the Trade Centre Limited policy requirements for tenders and quotes are not followed. This form supports why tendering and quotes were not obtained and includes approval for deviating from the policy. If the transaction is in excess of \$10,000, Government Procurement Services must be consulted before proceeding with an alternative procurement transaction. These requirements are not included in the Trade Centre Limited procurement policy. Without clear guidelines to address situations in which alternative procurement methods may be used (e.g., purchasing without a competition) and the process to follow, there is a risk that alternative procurement methods will be used inappropriately.

5.54 Testing – We tested 30 procurement transactions and found the following.

- There were eight procurements in excess of \$10,000, for which tendering was not carried out and an alternative procurement form was not completed. In

all cases, Trade Centre Limited management indicated the purchase was an alternative procurement in which tendering was not required.

- There were four procurements between \$1,000 and \$10,000 for which quotes were not obtained and an alternative procurement form was not completed. Trade Centre Limited management indicated that two of these procurements should have had quotes obtained while the other two were alternative procurements for which quotes were not required.

***Recommendation 5.18***

***Trade Centre Limited should update its procurement policy to include requirements for the use of alternative procurement practices.***

***Trade Centre Limited Response:***

*Recommendation Complete: This recommendation has already been implemented after the audit period.*

*TCL updated its procurement policy effective October 2012 to include the use of appropriate alternative procurement documentation including the use of the Alternative Procurement Form.*

***Recommendation 5.19***

***Trade Centre Limited should comply with its procurement policy and develop a process to monitor compliance.***

***Trade Centre Limited Response:***

*Recommendation Complete: This recommendation has already been implemented after the audit period.*

*TCL has revised its procurement process to require periodic internal review of the organization's procurement activities by TCL Finance to ensure activities are in compliance with TCL's procurement policy and protocols.*

## Market Projections for New Convention Centre

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### Conclusions and summary of observations

Overall, the market projections report (2010) prepared by Trade Centre Limited staff lacks appropriate analysis and rigor expected for such an assignment. Significant growth projected in certain market segments was not adequately supported. Important industry realities such as an excess supply of convention centre space, new competitors, and a stagnant convention centre market have not been adequately considered and assessed. We expected a much more comprehensive analysis supporting such aggressive growth targets than what was performed. We recommended that the Executive Council Office obtain an independent second opinion on the market projections for the new convention centre.

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- 5.55 *Background* – In June 2010, Trade Centre Limited staff prepared a report titled *Market Projections for a Proposed New Convention Centre – 10 Year by Market Segment*. This report included a projection of the direct expenditures made by convention centre visitors over a 10-year period. These expenditures were used to determine the economic impact of the ongoing operations of the convention centre in the business case submitted to Executive Council. The projected number of visitors and their expenditures while in Nova Scotia are important inputs in determining the potential economic impact of the operations of a new convention centre. If the number of visitors expected and resulting direct expenditures are inaccurate, the expected economic impact will likely be inaccurate as well.
- 5.56 It is important to note that our audit examined only the process and analysis used by Trade Centre Limited in the preparation of the market projection report. We have not audited any other aspects of the funding or analysis by government for the new convention centre project. We have not assessed, nor do we provide an opinion on, the merits of a new convention centre.
- 5.57 The market projections report is broken down into six market segments. These segments include international, national association, national corporate, provincial and regional, local, and consumer and trade shows. Our audit work focused on the international, national association, and national corporate segments as they represent a significant portion of the projected direct expenditures in the report.
- 5.58 Market projections are future orientated and can be complex in nature. They are typically calculated through a combination of three methods: expert forecasts based on reliable industry data or market research; estimates based on past data; and educated assumptions. The rigor that we expected to see supporting the projections in the three market segments reviewed was not evident. Aggressive growth targets and key market share assumptions have not been adequately supported.
- 5.59 *Projected growth rates* – The Trade Centre Limited report projects significant growth in all three of the major industry segments we examined. The following table summarizes the projected growth included in the Trade Centre Limited report for these segments. The table illustrates the projected increase in the number of events, attendees and direct expenditures.

	INTERNATIONAL			NATIONAL ASSOCIATION			NATIONAL CORPORATE		
	Base Year	Year 10	% Growth	Base Year	Year 10	% Growth	Base Year	Year 10	% Growth
Number of Events	7	29	314%	14	41	193%	10	30	200%
Number of Attendees	3100	13450	334%	7800	22750	192%	2565	15900	519%
Direct Expenditures	\$3,227,100	\$14,001,450	334%	\$12,714,000	\$37,082,500	192%	\$4,180,950	\$25,917,000	519%

- 5.60 While we acknowledge it is a reasonable assumption that a larger, more versatile convention centre would enable Trade Centre Limited management to attract bigger events in greater numbers, we do not believe that Trade Centre Limited has adequate support for the aggressive growth numbers in the table above. The following paragraphs provide the detail supporting our conclusion.
- 5.61 *International market* – The total 10-year projected direct expenditures in the Trade Centre Limited report for the international market segment are approximately \$95 million. Trade Centre Limited management uses two key assumptions when calculating the projected number of events in this segment. They assume that the growth in the international market in Canada will continue at a similar rate to the growth experienced between 1999 and 2008, as reported by the International Congress and Convention Association in their *Statistics Report - The International Association Meetings Market - Abstract for non-members - 1999 - 2008*. They also assume that Halifax's share of the Canadian market in year 10 will be 6.5%, which they believe is similar to Ottawa's and Quebec City's share of the market, as included in the referenced report.
- 5.62 There are several important factors which could impact on Trade Centre Limited achieving its projected results which have not been adequately addressed. Although Halifax has qualities which make it attractive to the international market, it will need to compete with facilities both in Canada, the United States and abroad. Given that the convention industry in North America appears to be stagnant, it is not clear how Trade Centre Limited will attract business away from key competitors. As an example, the current international market in Canada is dominated by large cities like Montreal, Toronto and Vancouver (based on a report prepared by consultants HLT Advisory titled *Ontario Convention Market Analysis* in February 2008.) In a stagnant or declining market Halifax would need to attract business away from other cities as the number of available events does not seem to be growing. Other important factors impacting this market segment include the increased value of the Canadian dollar and the excess supply of available convention space. Trade Centre Limited has not developed a clear strategy that addresses these industry realities. Significant growth projections should be supported by a more complete and rigorous analysis.
- 5.63 *National association market* – The total 10-year projected direct expenditures in the Trade Centre Limited report for the national association market segment are approximately \$298 million. The Trade Centre Limited report projects to host 41 events in year 10 for this segment. 41 events equates to approximately 20% of 200 associations with an eastern region rotation. Trade Centre Limited sees the eastern region as including five major competitors – Montreal, Ottawa, Quebec City, Halifax, and the rest of Atlantic Canada. In calculating the 20% market share, Trade Centre Limited management assumed that each competitor would receive an equal percentage, or one-fifth, of the market. This represents 300% growth from the base 2008 year. This is an overly simplistic approach and likely quite optimistic. It fails to take into account increased competition from facilities like universities and hotels

who are becoming bigger players in the industry, not only in Halifax, but throughout the country. Questions such as how and whether the new facility can compete on price have not been addressed. This approach also assumes that Halifax will compete equally with cities like Montreal, Ottawa and Quebec City. This is a risky assumption without a detailed assessment of potential competitors and other factors influencing destination decisions.

- 5.64 *National corporate market* – The total 10-year projected direct expenditures in the Trade Centre Limited report for the national corporate market segment are approximately \$194 million. Trade Centre Limited management projects that they will host 30 events in year 10. Unlike the other two market segments we examined, there is no clear rationale for how 30 events was determined. Trade Centre Limited provided a report on business lost to other markets which includes national corporate events. They also provided a consultant's report which suggests that Halifax would be an attractive destination for this market segment. Similar to the other market segments, important factors like increased competition from several expanded and new facilities, and other players in the market, have not been clearly addressed. The professional judgment of Trade Centre Limited management appears to be the primary source of information supporting the projections in this market segment. We expected a more comprehensive analysis in this area than was conducted by Trade Centre Limited.
- 5.65 *Annual growth rates* – In each of the industry segments we examined, Trade Centre Limited management focused their analysis on the number of events they believed they could attract in year 10 of operations. Assumptions were made related to growth from years one through nine to arrive at the year 10 total. The 10-year projected direct expenditures are the accumulated total expenditures based on the total number of events and attendees over the 10-year period. Although the method of allocation over the nine years does not impact the number of year 10 events, it could have a significant impact on the 10-year total events (326) and direct expenditures of \$298.5 million for the national association market. As an example, the number of events for this market is projected to increase from 13 in year one to 30 in year three (131% growth), with much less growth from 30 to 41 events over the next seven years (37% growth). If the projected growth was assumed to happen evenly over the 10-year period, it would reduce the 10-year total direct expenditures by approximately \$55 million and the total number of events by 60. There has been no clear analysis supporting why this particular market will achieve such significant early growth.
- 5.66 *Sensitivity analysis* – To demonstrate the sensitivity of changes to the projections included in the Trade Centre Limited report, we prepared the table below. We recalculated the impact on the total direct expenditures based on a reduction of 10% to 50% of the projected number of events in all market segments. As demonstrated by this analysis, a relatively small change in the projected number of events can have a significant impact on the total direct expenditures by visitors and the expected economic benefit of a new convention centre.



Market Segment	Original Projected Expenditures	10% less	20% less	30% less	40% less	50% less
International	\$95,199,450	\$85,679,505	\$76,159,560	\$66,639,615	\$57,119,670	\$47,599,725
National association	298,453,000	268,607,700	238,762,400	208,917,100	179,071,800	149,226,500
National corporate	194,255,250	174,829,724	155,404,200	135,978,674	116,553,150	97,127,625
Provincial/regional	114,574,885	103,117,397	91,659,908	80,202,420	68,744,931	57,287,443
Local	22,110,505	19,899,455	17,688,404	15,477,354	13,266,303	11,055,252
Consumer and trade shows	29,411,820	26,470,638	23,529,456	20,588,274	17,647,092	14,705,910
<b>Total</b>	<b>\$754,004,910</b>	<b>\$678,604,419</b>	<b>\$603,203,928</b>	<b>\$527,803,437</b>	<b>\$452,402,946</b>	<b>\$377,002,455</b>
Decrease in projected expenditures		\$75,400,491	\$150,800,982	\$226,201,473	\$301,601,964	\$377,002,455

5.67 As indicated in the background section to this chapter, Trade Centre Limited management prepared the market projections supporting the business case for the new convention centre. The province has committed \$56 million, the federal government \$51 million, and Halifax Regional Municipality \$56 million, towards this project. These commitments represent a significant investment by taxpayers. We have not seen appropriate evidence supporting the aggressive growth targets projected by Trade Centre Limited. We believe it would be prudent for the Executive Council Office to acquire an independent second opinion of the market potential for a new convention centre so that government is assured of having the best information available for planning purposes.

**Recommendation 5.20**

***The Executive Council Office should obtain an independent second opinion on the 10-year market projections for the new convention centre.***

***Executive Council Office Response:***

*The Province is satisfied with the level of detail provided in the market projections and is confident in the process followed by TCL to prepare the assessment. The market projections for the new convention centre were only one piece of information considered in the investment decision to proceed with the project. Taken in their entirety, the market projections, various consultants' reports and assessments used to evaluate this project clearly highlight the need for the new convention centre and Nova Scotia's ability to compete effectively nationally and internationally. It is expected that as the project proceeds, further work will be carried out by TCL and the Department of Economic and Rural Development and Tourism to ensure the market projections are measured and achieved.*

## Trade Centre Limited: Additional Comments

Trade Centre Limited's (TCL) Board of Directors and management are pleased by the Office of the Auditor General (OAG) findings that the financial and operational monitoring and reporting to the Board is adequate and that the reporting covers all significant goals, operations and responsibilities of the Board.

TCL's Board and management are committed to continuous improvement and responsible business practices with a focus on developing and implementing measures and processes that are appropriate and sustainable for the organization. While we believe that the organization is effectively managed and governed, we recognize that improvement is required in areas and have already acted to implement twelve of the OAG's recommendations. TCL will address all of the recommendations related to the audit of processes and procedures associated with the financial and operational management of the organization.

TCL maintains that the market projections for the new convention centre are valid and reasonable. These projections were compiled using a combination of primary and secondary market research, industry data, client input, estimates derived from past performance and educated assumptions from industry experts and based on TCL's industry knowledge and experience. We are confident that the information we have provided is reasonable and we fully expect to be held accountable to achieving our market projections and delivering the resulting business and impacts for Nova Scotia.