



City Council Special Meeting Agenda

Tuesday, September 29, 2020 – Council Chambers, City Hall

Call to Order:	2:00 PM
Recess:	5:00 PM to 6:00 PM

1. In Camera Meeting (to last approximately 1.5 hours)

1.1. Motion to In Camera

- 1.1.a. Westerner Exposition Association Forensic Audit - FOIP 17(1)
Disclosure harmful to personal privacy, FOIP 23(1)(a) Local public body
confidences, FOIP 24(1)(a) Advice from officials and FOIP 25(1)(a)
Disclosure harmful to economic and other interests of a public body**

1.2. Motion to Revert to Open Meeting

2. Reports

2.1. Westerner Exposition Association Forensic Audit

(Pages 2 – 13)

3. Adjournment



September 29, 2020

Westerner Exposition Association Forensic Audit

Prepared by: Allan Seabrooke, City Manager

Report Summary & Recommendation

As part of the financial oversight of the Westerner by The City of Red Deer (City), it was considered prudent to conduct a Forensic Audit of the Westerner. The purpose of the Audit was to:

- I. Complete a forensic audit as follows:
 - a. Conduct an audit of two business cases:
 - i. The documentation and decision making regarding the construction and financing of the Exhibition Hall, to determine the existence and scope of any misrepresentation(s) that may have been made by management to the Board of Directors of the Westerner
 - ii. The documentation and decision making involved in the choice to host the Canadian Finals Rodeo, to determine the existence and scope of any misrepresentation(s) that may have been made by management to the Board of Directors of the Westerner
 - b. Conduct a forensic audit of 2018 – 2019 financial records to determine the existence and extent of any fraudulent activity
2. Provide a comprehensive report of any findings above and any further actions required as a result of the findings.

Deloitte LLP was engaged to conduct the Forensic Audit and their findings are attached.

Administration recommends that Council receive this report as information.

Proposed Resolution

That Council receives the report for information.



Background

Since 1891, Westerner Park has been a place for Central Albertans to gather and celebrate community events. Westerner Park is a community minded non-profit organization and agriculture society that plays host to an estimated 1.5 million visitors annually. From weddings to banquets to hockey games and agriculture shows, Westerner Park is a community hub in Red Deer and central Alberta run by a Board of Directors.

In December 2019, the Westerner informed the City of its fiscal challenges and reached out to the City for assistance. Several factors ultimately led to the financial instability at Westerner Park, including the decision to expand the facility, major event contract negotiations and the current economic reality, to name a few. The additional impacts of COVID-19 are placing greater financial pressures on Westerner Park with no ability to host events or generate revenue throughout the COVID-19 pandemic.

In addition to providing assistance, the City assumed temporary financial oversight for Westerner Park to help navigate the current challenges. The City does own the land at Westerner Park, which it rents to Westerner Park under a 50-year lease. The shared goal is financial and operating stability with Westerner Park continuing to serve as our community hub for events that are pivotal to our community life and economic development in Central Alberta.

Current Situation

The City has contracted Deloitte LLP to commence an audit based on two phases. The first was a forensic audit with the results submitted as part of this report. I

The second is a financial sustainability project for the purpose of providing an assessment of the current and future Westerner Park's financial capabilities, and a recommendation for a future state of Westerner Park. Information gleaned from the forensic audit will provide a foundation for moving forward with best practices. The financial sustainability findings will be submitted at a subsequent Council meeting.



City of Red Deer

Investigation of activities within
Westerner Exhibition Association and
related matters

August 12, 2020

1 Executive Summary

Introduction and Background

1. Deloitte LLP was engaged by the City of Red Deer ("**City**" or the "**Client**") on May 29, 2020 to complete a forensic review and provide a report of findings ("**Report**") on the following items at the Westerner Exposition Association ("**WEA**" also referred to as "**Westerner Park**"):
 - i. Review the documentation and decision making process in the construction and financing of the new exhibition hall (the "**Hall**"), to determine the existence and scope of any misrepresentation(s) that may have been made by management to the Board.
 - ii. Review the documentation and decision making process regarding the choice to host the CFR, to determine the existence and scope of any misrepresentation(s) that may have been made by management to the Board.
 - iii. To determine the existence and extent of fraudulent activity, if any, in the 2018 to 2020 financial records.
2. This Report sets out the review process and findings of Deloitte LLP.
3. The WEA was originally established as the Red Deer Agricultural Society in 1891 and has evolved over the intervening years to be an important contributor to the economic activity in the central Alberta region. The facility has grown from the original fair grounds on Ross Street to 320 acres on the southern edge of the city with numerous event venues, located on City-owned lands.
4. The WEA is incorporated under the Alberta Business Corporate Act as a not-for-profit organization and is a registered charity. It is also a registered Agricultural Society. The WEA has a board of directors ("**Board**") which currently has thirteen members including eight that were elected by the shareholders, the past President, two members of City Council ("**Council Members**"), one member from Red Deer County, and one member from the Red Deer Chamber of Commerce.
5. Around January 2008, the WEA developed a 20 year Strategic Development Plan ("**Plan**"), outlining several opportunities of expansion at the WEA. Included in this Plan was a new trade and exhibition centre which would feature approximately 75,000 square feet of space.
6. In November 2017, the Board at WEA approved the plans to build a new exhibition hall ("**Hall**") at the Westerner Park. This Hall would be the Park's largest and most technical venue to date with approximately 50,000 square feet of space and a maximum capacity of 3,000 guests.
7. Construction began on the Hall in April 2018 with its grand opening on May 13, 2019.
8. Concurrently, in November 2017, with Board approval, the WEA bid on a multi-year proposal to host the Canadian Finals Rodeo ("**CFR**"). In January 2018, the WEA was awarded the right to host the 45th CFR through to the 54th CFR, with the first event to be held in Red Deer in November 2018.
9. In order to make their decision on the Hall and CFR, the Board relied on financial projections presented by management in November 2017. The financial projections included various assumptions such as, but not limited to, events that would be hosted at the Hall, incremental revenue from parties interested in renting the Hall, and the amount of seating available for the CFR.
10. By fall of 2018, it became apparent that some of the assumptions for the CFR were not achievable which resulted in less revenue than initially projected by management. In addition, the incremental revenue from parties interested in renting the Hall failed to materialize.

11. The WEA had neutral or negative financial performance in the last three fiscal years, despite significant investments made in the construction of the Hall and the successful bid to host the CFR at WEA.
12. In September 2019, the Chief Executive Officer ("**CEO**") presented to the Board an update on the internal controls and best practices for the organization. On November 30, 2019, the CEO provided a status report to the Board concerning the financial health of Westerner Park. In late 2019, the City, as the landowner, was notified by WEA that there were growing concerns regarding WEA's ability to comply with its debt service coverage ratio.
13. In January 2020, the City assumed temporary financial oversight of the WEA's financial activities.

Overall Conclusion

14. The approval for the construction of the new Hall was based on the representation by the CEO that the financial projections would be positive, and that there would be incremental revenue from a new contract with the Red Deer City Soccer Association ("**RDCSA**"). On September 3, 2018, the CEO advised two board members that the contract with RDCSA would not be forthcoming. Ultimately, the contract with the RDCSA never materialized which would have provided incremental revenue to the WEA.
15. The Board agreed to bid on the CFR based on representations by the CEO, supported by a financial model, which showed positive annual net income for a period of 10 years. Within the proposal, the CEO indicated that there could be a total of 7,851 to 8,427 seats available for sale as a result of their initial research. During the first CFR, the number of available seats which could be sold was reduced to 6,690. The lower number of available seats was one of the contributing factors to the poor financial performance of CFR 45.
16. Overall, we did not identify instances of inaccurate information provided by Management to the Board for the approvals of both the CFR bid and the construction of the Hall. Our review has indicated that subsequent to the Board approval, factors that the Board relied on such as the RDCSA contract and the CFR seating numbers were ultimately not achieved.
17. The results of our work did not identify items which would be indicative of fraudulent transactions. Our analysis did identify systematic data quality issues in WEA's accounting data within the Review Period.
18. Additional factors that contributed to the financial strain at the WEA include:
 - i. No significant marketing efforts at least 18 months in advance of the opening of the Hall.
 - ii. Lack of qualified finance staff which delayed in the timely reporting of financial difficulties to the Board and senior management.
 - iii. Lack of adherence to financial controls and processes which resulted in failure to provide timely financial reports to the Board.
 - iv. Multiple projects occurring concurrently from the period of November 2017 to May 2018.

Deloitte Process and Procedures

19. Our review covered the period from April 1, 2017 through to May 30, 2020 (the "**Review Period**") and was limited to the issues described in this Report. This Review Period was determined based on discussions with the City.
20. To conduct our forensic review, we used four main sources of data from the WEA: (i) Board minutes and agendas; (ii) Selected email files; (iii) Financial and accounting data and related supporting documents from WEA; and, (iv) Contracts and agreements between WEA and other parties.
21. In addition to the analysis conducted on four data sources, Deloitte conducted interviews with individuals who were involved in the operations, governance and/or financial controls and processes at the WEA

during the Review Period. Deloitte also conducted a review of the minutes from City Council from August 2017 to May 2020.

22. The total number of documents and data received by Deloitte includes:

- i. 367,295 email files (or 326,751 emails after de-duplication);
- ii. Minutes and agendas from 914 WEA Board and committee meetings; and
- iii. Accounting data related to 1,751 employees, 5,513 vendors, 13,409 invoices with a total invoice amount of \$56,137,387, and 7,041 payments with a total payment amount of \$55,894,733.

Scope Limitations

23. There were instances where we were unable to obtain or review in their entirety certain supporting documentation. This information was unavailable for various reasons which includes but is not limited to:

- i. Could not be provided by a third party.
- ii. Financial data not always completely maintained by WEA personnel.
- iii. Communications held only in person with no documented notes or minutes.

Representation with respect to the Hall

24. Based on the procedures, scope of our review, limitations in scope and subject to the restrictions herein, we observed the following key events with respect to the documentation, decision making and representation by the CEO regarding the construction and financing of the Hall.

- i. On November 21, 2017, the CEO presented financial projections to the Finance, Investment and Audit Committee ("**FIA Committee**") which indicated that the "*likely projections*" for the new Hall were expected to generate a positive cash flow and provide a positive contribution margin (contribution margin assesses profitability without consideration for fixed costs), to the WEA in the long term. During this meeting, the CEO represented that a RDCSA contract could generate \$450k of additional revenue over a 14 week period. This additional revenue was not included in the financial projections.
- ii. On November 23, 2017, the CEO presented to the Board an update with respect to the incremental RDCSA revenue. The new revenue amounts ranged from \$165K to \$355K over a 14 week period. These amounts were not included in the Hall's financial projections. Based on our email review and interviews, this was one of the items which convinced the Board that the construction of the Hall should be completed.
- iii. A signed contract between the WEA and the RDCSA was never formalized. Subsequent to the departure of the CEO in September 2018, it was determined that the rental amounts in the draft contract were not consistent with the rental income presented to the Board on November 23, 2017, albeit significant time had passed.
- iv. Our review of the Board minutes and email correspondence between the CEO at the time and the RDCSA showed multiple attempts by the CEO to negotiate a contract with the RDCSA. On July 26, 2018, the RDCSA provided the CEO with a draft contract where the total rental income amount was \$998,376 for ten years. This was unacceptable to the CEO and there were subsequent negotiations between the CEO and the RDCSA.
- v. On September 3, 2018, in an email correspondence between the CEO to two Board members, the CEO indicated that the RDCSA agreement would be signed, however, due to RDCSA's financial constraints, there would be no immediate guarantee of incremental rental revenue from the RDCSA.

- vi. The Board minutes after November 23, 2017, do not contain representation by the CEO that the potential incremental revenue from RDCSA would be lower than what was previously presented.
- vii. No multi-year agreement was signed with the RDCSA.
- viii. The Board authorized the approval of the construction of the Hall on November 23, 2017. The Board authorized the contract to be executed by the President & Board Chair and CEO, contingent on the confirmation of financing.
- ix. The signed construction contract for the Hall had an effective date of October 29, 2017 with a start date of November 2, 2017, which is before the Board motion on November 23, 2017.
- x. It is not clear the date in which the authorized personnel at the WEA signed the construction contract.
- xi. On April 4, 2018, the WEA announced that the foundation work for the Hall had begun to move forward. The construction loan with CWB was not signed by the WEA or Board member until May 14, 2018. We note that the Board minutes on November 23, 2017 are ambiguous to the extent of what "confirmation of financing" entails.

Representation with respect to the CFR

25. Based on the procedures, scope of our review, limitations in scope and subject to the restrictions herein, we observed the following with respect to the documentation, decision making and representation by the CEO regarding the CFR.
- i. On November 6, 2017, the CEO presented financial projections to the Board that the CFR was expected to be profitable over the life of the 10 year contract.
 - ii. Included in the projection package was a seating layout that indicated a range of possible seats for the CFR between 7,851 and 8,427 seats as well as a budget of 88% ticket sales for 2018.
 - iii. In January 2018, it was announced that the CFR would be hosted in Red Deer for at least 10 years with its first event to be held in October 2018.
 - iv. After January 2018, there was multiple email correspondence between the management, CEO and third party vendors regarding estimates for the number of temporary seats for the CFR.
 - v. By February 12, 2018, email correspondence between the CEO and the Canadian Professional Rodeo Association ("**Rodeo Canada**") indicated that the proposed possible seats for CFR was now 7,851. We have not identified evidence that the proposed seat count represented by the CEO of 8,427 was feasible.
 - vi. During CFR 45, the first CFR hosted at WEA, it became apparent that only 6,690 seats could be sold and the actual attendance rate was 92% based on these 6,690 seats available.
 - vii. The actual number of seats sold is approximately 11% to 17% lower than budgeted. This results in an estimated reduction of projected revenue of approximately \$401,000 to \$625,000.
 - viii. We did not identify communication to the Board regarding updates to projected number of seats available for sale prior to the actual CFR event.

Examination of accounting transactions

26. The results of our procedures did not identify items which would be indicative of fraudulent transactions. Our analysis did identify systematic data quality issues in WEA's accounting data within the Review Period.

The Perfect Storm

27. In addition to the cost of construction for the Hall, there were multiple factors which contributed to the declining financial performance at the WEA, which was described to Deloitte as the “**Perfect Storm**”. The following table summarizes some of these factors which we have corroborated with documentation where available.

Factor Identified	Description
Board governance	<p>Generally, a Board has overall responsibility for governance.</p> <p>We note that in November 2016, the WEA Board amended its approach to governance and oversight of the WEA. These amendments were with the intention to provide more oversight and have less operational and managerial involvement. The Board established clear boundaries of delegation for operations to the CEO and staff.</p> <p>The application of the amended governance policies and the culture at the WEA resulted in a severing of communication between senior managers at WEA and the Board with the main point of contact being the CEO who had the direct reporting line to the Board.</p>
Communication to City Council	<ol style="list-style-type: none"> 1. Council Members are bound by in-camera discussions at the WEA board meetings. Council Members could not communicate major decisions made in camera by the Board to City Council without first obtaining permission from the Board Chair. 2. At least one WEA Board member was under the impression that the Council Members on the Board would share information as necessary with City Council. <p>There is no clear documentation from the City that defines the role and expectations of the City Councillors on the Board.</p>
Concurrent projects	<p>As a result of the expropriation of Edmonton Northlands Coliseum by the City of Edmonton ("Northlands"), the WEA had one year to plan for CFR 45 while concurrently overseeing the construction of the new Hall.</p>
Lack of qualified staff	<ol style="list-style-type: none"> 1. WEA was subject to staff turnover in the finance department. Experienced personnel were replaced with professionals that lacked similar years of experience. 2. At points in time during the Review Period, the finance team at WEA were unable to perform their duties to the satisfaction of the Board. <p>Due to the state of the accounting records and the apparent deterioration of the accounting controls and processes, an external consultant was hired to understand and organize WEA's finances and accounting records.</p>

<p>Lack of marketing</p>	<p>We were informed that in the construction of a new event venue, a sales team would be involved in a strategy to occupy the building. A lead time ranging from 18 to 36 months in advance of the building opening would be sufficient to market the building for occupancy.</p> <p>From the time that the Hall was approved by the Board, to when the grand opening occurred, there was a total of 18 months lead time to market this new venue for public use. Based on our email review, the earliest identified marketing material for the Hall was prepared approximately 12 months in advance of the grand opening. We did not identify significant marketing efforts, at least 18 months in advance of the opening of the Hall, this appears to have contributed to the overall poor financial performance of WEA.</p>
<p>Major Maintenance Fund ("MMF")</p>	<p>The MMF is a specialized fund established in 1994 for the purpose of major maintenance needs for the Westerner facility.</p> <p>Use of the MMF fund for purposes other than the major maintenance needs is limited to special capital construction projects, subject to approval by the City.</p> <p>In 2018, the Centrum received an upgrade to the bathroom and the concession stand. According to the CEO at the time, the funds used for these upgrades came from the operating account. Due to the general nature of the MMF agreement, it is not clear to us whether these upgrades would qualify as major maintenance needs and whether the MMF could be used to pay for these upgrades.</p> <p>In January 2019, the Board approved the use of the MMF fund for cash flow purposes and the funds were transferred to the operating account.</p> <p>We found no evidence that the approval was obtained from the City for the transfer of funds in January 2019. However, our review of the minutes indicates that both Council Members were in attendance at that meeting. At least one Council Member had shared the use of the funds for cash flow purposes with one other member of City Council.</p> <p>The Board policy (with respect to the MMF) does not explicitly state whether Board approval is required for the use of the fund. We have observed motions in the Board minutes approving the use of the funds.</p>

Restrictions

28. We express no opinion as to whether the information presented in this Report is sufficient to establish civil or criminal wrongdoing, as only a court can determine these matters.
29. Our work does not constitute an audit as defined by Chartered Professional Accountants of Canada. Consequently, said work and the resulting Report do not constitute an auditor's opinion nor do they represent such an opinion in any way. Further, our work cannot be used to provide assurance that it revealed all errors, omissions, or irregularities.

30. This Report was based on information, documents, interview statements and explanations that have been provided to us and, therefore, the validity of our conclusions rely on the integrity of such information. Should any of the information provided to us not be factual or correct, or should we be asked to consider different information or assumptions, any findings set out in this Report could be significantly different.
31. Deloitte used its professional judgment to identify and document the key events in the Report in order to provide a concise summary of key events. There may be other information that we have reviewed that another professional may consider a key event.

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DATE: September 30, 2020
TO: Allan Seabrooke, City Manager
FROM: Frieda McDougall, Legislative Services Manager
SUBJECT: Westerner Exposition Association Forensic Audit

Reference Report:

City Manager's Office, dated September 29, 2020.

Resolution:

At the Tuesday, September 29, 2020 Special Council Meeting, Council accepted this report as information:

Report back to Council:

No.

Comments/Further Action:

None.

"Frieda McDougall"

Frieda McDougall
Manager