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public sector management consulting



Comprehensive Audit of Stadium Authority Finances

September 14, 2016

TO: Audit Ad Hoc Steering Committee

FROM: Fred Brousseau, Principal-in-Charge

SUBJECT: Status Report #03

Period covered: August 30 – September 13, 2016

1. Activities and Accomplishments during Reporting Period

- a. The audit team continued its detailed review of Measure J and the core agreements between the City of Santa Clara, the Santa Clara Stadium Authority (SCSA), the Forty Niners Stadium Company LLC and the Forty Niners Stadium Management Company. A key purpose of these reviews was to understand the baseline financial requirements of Measure J and to ascertain how they were translated into the operating agreements and City procedures and practices. Critical to the review was documenting the flows of funds between the entities, formulae used to determine the City's reimbursable costs and the processes by which City costs are budgeted, tracked, reported and billed to the SCSA and the Forty Niners' entities.
- b. The audit team communicated with a number of City employees who made contact with the audit team pursuant to the Acting City Manager's announcement sent to all City employees informing them that they could contact the audit team to provide input on Stadium Authority audit matters.
- c. The audit team conducted an interview with the City Attorney as well as Karen Tiedemann, an attorney with Goldfarb & Lipman, LLP whose firm had provided legal counsel to the City during contract negotiations with the 49ers, to verify and clarify our understanding of the pertinent Stadium agreements.
- d. The audit team conducted interviews with several other City officials from various departments to gain an understanding of each department's policies and procedures for recording time and other costs associated with Stadium Authority activities. These interviews were conducted with: (1) Police Chief Michael Sellers; (2) Fire Chief William Kelly and Deputy Fire Chief J.D. Madden; and, (3) City Traffic Engineer Dennis Ng.
- e. The audit team conducted an interview with Finance Department staff responsible for collecting and reporting Stadium Authority citywide staff time and other costs for reimbursement from the Stadium Authority and/or the 49ers Stadium Management Company. The purpose of this

interview was to gain a better understanding of the Finance Department staff's responsibilities, the records and data available regarding the City's reimbursed costs, the management of Stadium Authority finances and reimbursement flows, and an overall understanding of the Stadium Authority's financial condition. This information is particularly needed for Task 4 of the audit work plan (Analysis of Timekeeping and Staff Cost Allocation Policies, Procedures and Practices, including testing of sample time card and account code records).

- f. The audit team conducted an analysis of Stadium Authority budget documents including the adopted annual operating budgets and quarterly financial status updates provided to the Stadium Authority Board. The purpose of this analysis was to review the level of detail and clarity of Board budget presentations and to initiate the detailed review of Stadium Authority operating costs and Non-NFL Event for the two year audit scope period (Tasks 5 and 6 from the audit work plan: Review and Analysis of Stadium Operating Costs and Review and Analysis of Revenues and Expenses for Non-NFL Events). The audit team will generate questions from this review for follow up with Finance Department staff and ManCo to better understand Stadium Authority revenues and expenses and to provide a full assessment of reports and information provided to the Board.
- g. In a previous reporting period, the audit team contacted each City department head requesting information on whether any employees in their department have provided Stadium-related services between April 2014 and the present and, if so, to provide copies of written procedures used to instruct staff on how to record their time spent on Stadium activities. If they did not have written procedures, we requested that they describe how time recording instructions were communicated to staff (e.g., staff meetings, individually, etc.). All department heads have provided responses to this inquiry and follow-ups with certain department heads have occurred or are underway.
- h. The audit team continued compiling financial information provided by the Finance Director and inventorying compliance with the planning, budgeting and financial reporting document requirements of Measure J and the agreements between SCSA, the City and the 49ers' entities.

2. Issues/Challenges during Reporting Period

None to report.

3. Potential Audit Issues Identified:

The audit team has identified two initial issues that will be among the matters investigated as part of the audit. Please note that these are preliminary issues and still subject to further review and analysis.

The first issue is that the City's Finance Department created time codes and worked with individual City employees to assist them in tracking and recording their time spent on Stadium-related tasks after Stadium construction was completed. However, until August, 2016, when the Acting City

Manager issued a directive to all employees on this topic, the City apparently did not provide central Citywide direction to all employees on time tracking and billing procedures for Stadium-related activities. As a result, some staff time for all relevant activities may not have been billed and reimbursed. The audit team will investigate whether some staff time spent on Stadium-related work was not charged to the Stadium Authority or 49ers entities.

A second potential audit issue that the audit team will be analyzing is that a number of Stadium-related plans and specialized budgets required in the SCSA agreements and that serve as the basis for certain SCSA and City revenues and expenses are not individually presented to the Stadium Authority Board or summarized in the SCSA annual budget and financial status reports. Examples of these documents are the Stadium Operations and Maintenance Plan, the Annual Shared Stadium Expenses Budget and the Public Safety Budget. Elements of the documents are reportedly incorporated in the SCSA budget that is reviewed and approved by the Board, but without the detail of the foundation documents. In contrast, a summary of the Capital Expenditure Plan is presented in the budget and quarterly financial status reports.

While the current approach is consistent with provisions of the Lease Agreement, which delegates authority to the SCSA Executive Director for approval, consent, or waiver on behalf of the SCSA, presentation of these documents or a clear presentation of how they have been incorporated in the SCSA budget might better assist the Board in their role overseeing SCSA's revenues and expenses.

4. Tasks to be Completed during the Next Reporting Period (September 15 – September 27):

The audit team will continue its compilation and analysis of financial information collected from the Finance Department to analyze compliance with Measure J and the pertinent agreements and to conduct a trend analysis of Stadium-related revenues and expenses, by line item, for NFL and Non-NFL Events.

The audit team will schedule a follow up interview with Finance Department staff in order to better understand Stadium Authority finances and reports provided to the Board. The audit team will also inquire about and request documentation supporting City costs for reimbursement as well as revenues and costs reported to the Board.

The audit team will interview staff from the 49ers Stadium Management Company (ManCo) to obtain an overview of their functions and to make arrangements for the collection and analysis of financial data, plans, related budgets and other information that they prepare pertaining to Stadium Authority costs and operations.

At the suggestion of the Acting City Manager, the audit team will contact and interview representatives of Keyser Marston, financial adviser to the City and SCSA, who were involved in developing the financial models for the Stadium prior to its opening and in preparation of the agreements between the City, SCSA and the 49ers' entities.

5. Pending matters

No other pending matters at this time.

6. Other issues

No other issues at this time.