



## Comprehensive Audit of Stadium Authority Finances

December 8, 2016

**TO:** Audit Ad Hoc Steering Committee  
**FROM:** Fred Brousseau, Principal-in-Charge  
**SUBJECT:** Status Report #09

**Period covered:** November 22 – December 7, 2016

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### 1. Activities and Accomplishments during Reporting Period

- a. Using information provided by the Stadium Authority (City) Finance Department, we identified which details and records of Stadium revenues and expenditures are kept by ManCo and which are kept by the Stadium Authority. Those kept by ManCo include Non-NFL event revenue and expenses, Stadium Manager expenses, utilities, and the use of StadCo Tenant Improvement fees.
- b. We are in the process of identifying sample transactions we plan to review that are kept by the Stadium Authority, and have been in contact with the City Finance Department regarding review of these transactions. We plan to submit a request for sample transactions to review to the City Finance Department in the next reporting period. For our sample transactions, we will review supporting documentation to analyze internal controls in place and methods by which costs were allocated between the Stadium Authority and the 49ers entities.

We began a review of Stadium Authority contracts approved by the Stadium Authority Board for compliance with the City's Stadium Authority Procurement Ordinance.

- c. The Stadium Management Company (ManCo) provided us with access to various requested documents and data on November 22, 2016 at their site. ManCo did not allow the documents to be taken or photocopied. We did take notes and copied information from the financial and other documents.

Information reviewed included the original 2014 Operation and Maintenance Plan for the Stadium, Non-NFL event general ledger revenue and expense detail, parking concession agreements covering Non-NFL events and pre-event planning meeting attendance rosters from 2016.

- d. A second audit team visit to the Stadium occurred on December 1, 2016 to review Non-NFL event and parking revenue records. We are reconciling this parking data with City Finance Department data on off-site parking fees collected and the off-site parking agreements. We are comparing revenues with the number of cars parked, event tickets sold, lots utilized, and plan to

present analyzed trends for NFL and Non-NFL events in our report. We will collect information from City parking staff on controls in place to ensure all off-site parking fees collected are accurate.

- e. We continued our review of City, Stadium Authority, ManCo and other records for comparison with corresponding payroll records to determine if all staff time spent on Stadium-related activities have been recorded and reimbursed by the 49ers entities or the Stadium Authority. These activities during the reporting period focused mostly on the Police and Fire Departments. We obtained clarification on timekeeping practices and clarified the average times for planning activities with both departments.

### **Issues/Challenges during Reporting Period**

The audit timing and schedule will be affected by the delay in obtaining an initial meeting with ManCo and receiving documents and data.

ManCo has asked that our firm sign a confidentiality agreement stating that we will not disclose confidential information that they have provided to us. We have not signed this agreement as it will not allow us to complete and report our audit work as agreed to with the Stadium Authority. As a result of our not signing the agreement, ManCo asked that we not proceed with our scheduled visit to their offices December 7, 2016 to further review their documents.

The confidentiality agreement as proposed states that information such as Non-NFL event revenue and expense information and Stadium operating costs maintained by ManCo and other information that they have designated as confidential would not be allowed to be presented in our audit report, which is intended to be a public document. Review and presentation of such information are two key elements in our audit scope. Information in the Operation and Maintenance Plan, for example specifying the Required Condition in which the Stadium is to be maintained, could not be included in our audit report.

The proposed agreement does allow for reporting ManCo's confidential information to the Stadium Authority if it were presented in such a way as to be exempt from provisions of the California Public Records Act, the California Evidence Code and the California Civil Code that would allow for its public disclosure. This appears to allow for presentation of the confidential information in a confidential report to the Stadium Authority Board.

ManCo has stated that they are open to our suggested changes to the draft agreement. We request direction from the Committee about how to proceed on this matter and whether or not to involve the Stadium Authority's legal counsel in the process.

## **2. Potential Audit Issues Identified:**

As reported in previous status reports, the audit team identified two initial issues that will be among matters investigated and reported on in this audit. As with all status reports submitted to date, the issues presented are *preliminary* in nature and still subject to further review and analysis.

***Direction to City employees***

As the Stadium was constructed and began operations, 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 clarifying what work activities are attributable to the Stadium and subject to reimbursement. As a result, some staff time for all relevant activities may not have been billed and reimbursed or some staff time may have been incorrectly billed.

The audit team prepared proposed amendments to the City Manager's Directive 136: *Stadium and Special Event Time Reporting and Reimbursement for City Services* to help clarify activities that should be recorded and charged to the 49ers entities or the Stadium Authority, previously submitted to the Ad Hoc Committee (see Status Reports 5, 6 and 7). The Acting City Manager requested some changes and reviews of certain amendments proposed by the audit team, particularly in the areas of specifying what activities and physical locations constitute Stadium-related activities for staff billing purposes. A revised version of the Directive incorporating the Acting City Manager's suggested changes has been prepared and it is our understanding that it has been distributed to City employees.

***Absence of key plan and budget documents***

A second potential audit issue also identified in previous status reports is that a number of Stadium-related plan and budget documents required to be prepared by ManCo in Stadium Authority agreements with the 49ers entities have not been individually presented to the Stadium Authority Board, consistently provided or provided in the level of detail in the Stadium Authority budget and financial status reports as required in the agreements. Arrangements have reportedly been made between ManCo and Stadium Authority staff in some instances that alter provisions in the agreements but, to date, we have not seen documentation codifying such arrangements.

- a. **The Stadium Operation and Maintenance Plan:** The Lease Agreement requires that this plan be prepared by the Stadium Manager (ManCo) to establish the "Required Condition" for the Stadium and "policies and procedures for operating and maintaining the Stadium Complex in accordance with good, sound and prudent engineering practices..." (Lease Article 7.1.1). In spite of the importance of all parties agreeing to a Required Condition for the Stadium, the Stadium Authority Board and current staff do not have a copy of this document.

In our Status Report #6, we stated that ManCo had informed the audit team that the Operation and Maintenance Plan was not prepared as a stand-alone document but incorporated in the annual Stadium Authority budget. This representation was based on what the five members of our audit team present heard at our meeting with ManCo representatives on October 21, 2016 and the absence of ManCo or Stadium Authority/City staff providing the document in response to our repeated requests starting October 3, 2016. We reported that none of the budget

documents reviewed by the audit team to date provide the information required in the Operation and Maintenance Plan according to the agreements.

In Status Report #7, we reported that ManCo informed us that they stated at our October 21, 2016 meeting that the Operation and Maintenance Plan was in fact produced as a stand-alone document in 2014 and provided to Stadium Authority staff and that it was agreed that it would be a confidential document due to security issues in the document. None of the five members of the audit team present heard this representation. No City staff that we have queried have this document or have a record indicating it is confidential and to kept only by ManCo.

ManCo provided a copy of the 2014 Plan document for our review at their site on November 22, 2016. We were not allowed to take a copy or photocopy any pages from it. We did take notes about its content. Updates to the Plan for 2015 and 2016 are available at the ManCo offices but we have not yet reviewed them in detail.

The key issue about the Operation and Maintenance is that, according to Stadium Lease Agreement Section 7.2, the Plan is supposed to be presented to the Stadium Authority and Stadium tenant for review and approval. It is to serve as the basis of how the Stadium is maintained and should inform the operating and maintenance costs included in the budget. For Stadium Authority Executive Director and Board members not to have a copy of the document and for the budget document not to explicitly incorporate the standards in the document leaves the Stadium Authority at a disadvantage in assessing the appropriateness of Stadium operations and maintenance costs.

ManCo representatives have indicated that the Operation and Maintenance Plan should not be made public as it contains sensitive security information about the Stadium. As this constitutes only a portion of the document, such information could potentially be redacted or removed for presentation to the Stadium Authority Board and availability to the public.

- b. **The Capital Expenditure Plan and Budget:** The Stadium Lease Agreement calls for preparation of a draft capital expenditure plan for mutual approval by the Stadium Authority and the 49ers entities. It is to be adopted as part of the Stadium Operation and Maintenance Plan and is to include both a budget year and five year plan (Lease Article 10.4.1).

The annual Stadium Authority budgets presented to the Stadium Authority Board for Fiscal Years 2015 and 2016 did include a one-year capital budget, but not a five year plan, as required in the agreements. For Fiscal Year 2016-17, the budget did include a five-year capital plan.

A ManCo representative has stated that a five year capital plan was not presented in the first two fiscal years as a cost allocation plan detailing construction costs was not finalized until November 2015. The FY 2016-17 Stadium budget does include a one and five year capital plan.

- c. **The Annual Shared Stadium Expenses Budget:** The Lease Agreement requires that an Annual Shared Expenses budget detail costs to be shared by the Stadium Authority and the 49ers entities. These are the costs incurred for both NFL and Non-NFL events such as landscaping

services, stadium insurance and stadium management fees. Non-shared expenses are allocated between the parties depending on whether they are attributable to NFL or Non-NFL events.

The Lease Agreement calls for shared expense information to be more particularly described in the Stadium Operation and Maintenance plan, a draft and final Annual Shared Expense budget, and the Public Safety Plan, and to include five year projections of shared expenses.

A more detailed breakout of the Annual Shared Expense budget was produced and presented to the Stadium Authority Board as part of the current Fiscal Year (FY) 2016-17 budget but was not provided for FYs 2014-15 and 2015-16. Stadium Authority staff and ManCo both reported that such information is embedded in the annual Stadium Authority budget.

We received a draft version of the shared expense budget for FY 2014-15 from City staff during the reporting period. The detail in that document was not included in the final budget presented to the Board. To our knowledge, five year projections of shared expenses have not been produced or provided to the Stadium Authority as required in the Lease Agreement.

Shared expenses appear to be embedded in the Stadium Authority budget line item "Other Expenditures" and/or "Stadium Operating Expenses-Stadium Manager". For Fiscal Year 2016, the final total budgeted amount for these two line items was \$10,422,089, but detail about the composition of these costs, and to what extent they are shared expenses, is not presented.

The Lease Agreement calls for Stadium Authority review and approval of the plan and budget documents discussed above, though such approval is delegated to the Stadium Authority Executive Director for approval, consent, or waiver on behalf of the Stadium Authority rather than requiring approval by the Board. To the extent the required plan and budget documents are provided to the Executive Director, the process is consistent with provisions of the Lease Agreement. However, presentation of the details of these documents, confirmation that they include all elements required in the agreements, and details of how exactly they are incorporated in the SCSA budget would better assist the Board in their role overseeing SCSA's revenues and expenses. Further, the Stadium Authority should receive and maintain its own copies of the documents in accordance with a consistent process and format and including all information required in the leases, management and related agreements.

**3. Tasks to be Completed during the Next Reporting Period (December 9, 2016 – December 20, 2016):**

Subject to direction for the Stadium Audit Ad Hoc Committee, the audit team will work with the Stadium Authority Board, staff and ManCo to resolve issues about what information and documents are confidential and what information can be included in the audit report. Once resolved, we will continue our analysis of Non-NFL event revenues and expenses and Stadium operating costs.

The audit team will continue with the review of staff activities, payroll and other costs compared to actual reimbursements from the 49ers entities or SCSA. The events selected include for this analysis

include: three NFL events and two Non-NFL events from both 2014-15 and 2015-16, and one Non-NFL event from 2016-17, for a total of eleven samples.

We will continue with our analysis of off-site parking fee revenue. Samples of individual transactions will be reviewed and controls in place to ensure accurate revenue will be identified and evaluated.

4. **Pending matters**

No other pending matters at this time.

5. **Other issues**

Audit timing is likely to be affected due to delays in scheduling our initial meeting and obtaining documents and data from ManCo.

Review of ManCo documents and data solely at their site, without the right to obtain and keep copies for our work papers, limits our adherence to Generally Accepted Government Auditing Standards requirements. We will need to disclose that limitation in our audit report.