



Meeting Minutes

Wednesday, November 21, 2016 – 5:30 p.m.

Committee Members present:

Chairperson Lisa M. Gillmor

Board Member Teresa O'Neill

Staff present:

Rajeev Batra, Acting Executive Director

1. Status update from Harvey Rose Associates, LLC

Dan Goncher gave an update on Status Report #08 for the period of November 9 – November 20, 2016, which included activities and accomplishments during the reporting period, issues and challenges during the reporting period, potential audit issues that were identified, tasks to be completed during the next reporting period (November 22 – December 6), pending matters and other issues. (Report attached)

2. Approval of Minutes

A. Motion was made and seconded to approve the minutes for the Ad Hoc Stadium Audit Committee meeting on November 9, 2016.

3. Questions and Comments by Committee Members

A discussion was had by Committee Members, Acting Executive Director, and Mr. Goncher. Main themes included the following:

- A. Board Member O'Neill expressed concern for current documentation for the Stadium, which is a publicly run facility. She also expressed concerns about future processes and would like to ensure that the City is able to maximize its investment in the Stadium. She expressed her concern for not having seen the Cost Allocation Study for the Stadium and would like to see documentation for the shared expenses. The Stadium Authority has a responsibility for the longtime financial performance of the Stadium and reiterated that having one day to look at all of the documents seems unreasonable.
- B. Acting Executive Director Batra stated that he did recently visit the Stadium with the Stadium Authority Counsel and the Finance Director to inventory the documents that are available. The Board Chairperson inquired as to what Staff saw at the Stadium during their visit. The Acting Executive Director clarified that they confirmed that the listed documents are available and that this is the first time that he has seen these documents. The Acting Executive Director confirmed that he has not signed or approved any of the Stadium Authority documents.
- C. Chairperson Gillmor announced that Board Member Kolstad is out of town. She requested to receive the Marketing Plan for non-NFL events. She expressed concern about where in the Stadium Management Agreement it states that the documents shall be kept confidential, and not be made available for the Stadium Authority Board, the Executive Director or the public. She expressed how important it is for the current Stadium Authority Board members and future Stadium Authority Board members to have the financial reports each year, in order to properly manage the Stadium. She recognized that the City did receive two million dollars from the Cost Allocation Study, but it is impossible to confirm if this is the correct amount due to the City without the documents to substantiate this.

4. Questions and Comments by the Public

Several members of the public addressed the Committee. Main themes included the following:

- A. A request was made for clarification of reported information from the Auditors. A suggestion was made to reevaluate the agreement with regards to the seat licenses and staffing at the Stadium.
- B. A request was made to have the documents made accessible digitally, to allow for easier searching of the documents.
- C. It was noted that it is unacceptable to have \$10,422,089 shared expenses lumped into two line items in the Stadium Authority budget. The question was raised on what the process has been for the Executive Director to approve budget documents.
- D. Concern was raised for why the Stadium Management hasn't offered earlier dates for the Auditors to have access to the requested documents. It was also noted that of the requested documents, there seem to be many that have not been provided and the audit has been delayed. A request was made to know of the outcome from Board Member Kolstad's request for documents. This information needed to be confirmed by Board Member Kolstad at a later time.

5. Adjournment:

Chairperson Gillmor adjourned to the next meeting on Monday, December 5, 2016 at 5:30p.m.

Prepared by:



Lynn Garcia
Executive Assistant to the Mayor and City Council



Comprehensive Audit of Stadium Authority Finances

November 21, 2016

TO: Audit Ad Hoc Steering Committee
FROM: Fred Brousseau, Principal-in-Charge
SUBJECT: Status Report #08

Period covered: November 9 - 20, 2016

1. Activities and Accomplishments during Reporting Period

- a. The audit team reviewed final changes to City Management Directive 136: *Stadium and Special Event Time Reporting and Reimbursement for City Services* which was originally issued August 5, 2016 and distributed to all City employees. It is our understanding that the revised version was distributed to City employees during the reporting period.
- b. The Stadium Management Company (ManCo) is scheduled to provide the audit team with access to various requested documents and data on November 22, 2016. These documents are to be reviewed only at ManCo's site and it is our understanding that we will not be allowed to take copies.
- c. 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.
- d. The audit team continued our analysis of detailed Stadium revenue and cost information provided by Stadium Authority Finance/Accounting staff. We are reconciling that information with revenues and expenses as presented in the Stadium Authority's annual budget and quarterly financial reports. This will enable us to provide a more detailed picture of Stadium revenues and expenses in our audit report and it will serve as the basis for reviewing a sample of transactions to review their supporting documentation to analyze internal controls in place and methods by which the costs were allocated between the Stadium Authority and the 49ers entities.

At this point, the data we have received from the Stadium Authority staff does not cover non-NFL Event revenues and expenses and certain other budget line items. That information is maintained by ManCo, not the Stadium Authority, and we are scheduled to review their revenue and expense documents for a sample of non-NFL events for the first time at the ManCo site on November 22, 2016.

- e. In the last reporting period, we requested and obtained detailed off-site parking fee revenue information for each Stadium event and parking facility from Finance Department staff and will be working with ManCo and City staff to review and analyze that information (Task 7 in our audit work plan). We requested the draft and final parking NFL plans from City staff and have received the final plan from ManCo, in the form of the off-site parking permit applications for various lots used for Stadium events.

Issues/Challenges during Reporting Period

The audit timing and schedule may be affected by the delay in obtaining an initial meeting with ManCo and receiving documents and data. We are now scheduled to review non-NFL event revenue and expense records for the first time on November 22, 2016.

2. Potential Audit Issues Identified:

Direction to City employees

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

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. As reported above, 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, or will soon be, distributed to City employees.

Absence of key plan and budget documents

A second potential audit issue also identified in previous audit reporting periods and 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 or provided in the level of detail in the Stadium Authority budget and financial status reports as required in the agreements. Further, in at least one case, the Operation

and Maintenance Plan, which is reportedly produced as a stand-alone document by ManCo, the Stadium Authority does not have its own copy of the required document.

- 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 informed us of its confidentiality. ManCo has stated they will provide us with a copy to review at their site on November 22, 2016.

The key issue about this document 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.

- 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). As stated above, the audit team has not yet received a copy of the Operation and Maintenance Plan to determine if it details the Required Condition of the Stadium and we therefore do not know if the Capital Expenditure Plan is part of such a document.

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 2017, 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 was not finalized until November 2015 and the current five year plan, included in the FY 2017 Stadium Authority budget, incorporated the asset allocation detailed in the cost allocation 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. As discussed above, the audit team has not yet received a copy of the Stadium Operation and Maintenance Plan. We understand that a separate Annual Shared Expense budget for Board review is not produced but such information is reportedly incorporated in the draft and final annual Stadium Authority budget. However, as currently prepared, the Stadium Authority budget document does not provide five year projections of shared expenses, details on which costs are being shared, amounts for individual expenses, or total amounts being shared.

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.

3. Tasks to be Completed during the Next Reporting Period (November 22 – December 6, 2016):

The audit team is schedule to review various requested documents at the MacCo site, including: the Stadium Operation and Maintenance Plan, non-NFL event revenue and expense details and records, agreements pertaining to non-NFL event parking services and records of production meeting agendas and attendees from 2016 at the ManCo site. Our understanding is that these documents will not be released to our audit team.

Memo to Stadium Audit Ad Hoc Steering Committee
November 21, 2016

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.

Stadium operating costs and off-site parking revenue will be further analyzed and samples of individual transactions will be selected for review.

4. Pending matters

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.