

Audit Report

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**Maryland Stadium Authority**

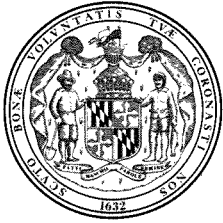
October 2013

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Karl S. Aro  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

October 2, 2013

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee  
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Maryland Stadium Authority (MSA) for the period beginning July 1, 2009 and ending October 16, 2012. MSA is primarily responsible for developing, constructing, and maintaining certain facilities (such as sports facilities, convention centers, and entertainment venues) authorized by law.

Our audit disclosed that MSA did not verify the accuracy of the operating statements received for certain events held at the football stadium, resulting in a lack of assurance that MSA received the proper share of the related net revenues. Furthermore, MSA did not always perform timely verifications of recorded collections to deposits.

MSA's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by MSA.

Respectfully submitted,

A handwritten signature in black ink that reads "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Maryland Stadium Authority (MSA) is an instrumentality of the State of Maryland, a public corporation, and an independent unit of the Executive Branch of State Government. MSA functions under the provisions of the Economic Development Article, Title 10, Subtitle 6, of the Annotated Code of Maryland. MSA is responsible for developing, constructing, and maintaining certain facilities (such as sports facilities, convention centers, and entertainment venues) authorized by law. In addition, MSA is authorized to perform planning and construction-related activities for State agencies or local governments, subject to certain notification requirements of the General Assembly.

MSA is governed by a seven-member board, with one member appointed by the Mayor of Baltimore City, and six members appointed by the Governor, subject to the advice and consent of the Senate. The members are appointed to four-year terms, and the board appoints an Executive Director (subject to the approval of the Governor) who is responsible for directing and supervising the administrative affairs and activities of MSA.

### **Agency Budget Oversight**

The Economic Development Article, Section 10-623(1) of the Annotated Code of Maryland specifies that MSA's annual budget submitted to the Department of Budget and Management for inclusion in the State budget book is primarily for informational purposes. Oversight by the Board of Public Works for certain MSA budgeting matters is established in the master lease and sublease agreements that exist between MSA and the State for the various MSA facilities. Under the master leases, the State leases the land and all facilities constructed thereon from MSA. Under the subleases, MSA leases the facilities back from the State. According to the State's records, MSA's total budgeted expenditures for fiscal years 2011 and 2012 were approximately \$79 million and \$80 million, respectively, and were paid from MSA income and State lottery special funds.

## **Financial Statement Audits**

MSA engaged an independent certified public accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2010, 2011, and 2012. In the related audit reports, the firm stated that MSA's financial statements for the aforementioned years were presented fairly in conformity with accounting principles generally accepted in the United States of America.

## **Stadium Tenant Rental Payments**

MSA's contract with the baseball stadium tenant provides that the tenant's rental payment is based upon the type of revenue received and the applicable rent percentage specified in the contract. Semi-annually, the rent is paid to MSA and the revenue on which the rent payment is based is also reported to MSA. Annually, MSA contracts with an independent accounting firm to assist MSA in verifying the amount of rent owed by the tenant. For calendar years 2009 to 2011, the firm reported that the rental payments made by the tenant included certain deductions from the "net admissions revenue", which were questionable. Based on financial information provided by the tenant, MSA would be due approximately \$180,000 for calendar years 2009 to 2011, if the deductions were determined to be unallowable. In January 2013, MSA began discussion with its legal counsel about this issue, and a formal letter was sent to the tenant requesting a detailed explanation of why it felt these deductions were allowable. As of September 6, 2013, the tenant had not yet responded.

## **2011 Grand Prix Unpaid Balances**

In May 2010, MSA contracted with a developer to organize the first Grand Prix street race in Baltimore, which was held in September 2011. The contract granted the developer the license and right to use certain areas of the Camden Yards Sports Complex. In addition, MSA contracted with the developer to design and construct certain road improvements (such as, a pit lane), in preparation for the event with the costs of construction being advanced to the developer by MSA. The contract specified that the developer would repay MSA's costs of construction over a five-year period. However, the majority of these costs were not repaid by the developer. In May 2012, these unpaid balances, totaling approximately \$2.4 million were forwarded to the Department of Budget and Management's Central Collection Unit for continued collection efforts.

## **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the five findings contained in our preceding audit report on MSA dated May 25, 2010. We determined that MSA satisfactorily addressed four of those items. The remaining item is repeated in this report.

## **Findings and Recommendations**

### **Event Revenue**

#### **Finding 1**

**Maryland Stadium Authority (MSA) did not verify that event operating statements prepared by the football team were accurate to ensure the related payments to MSA were proper.**

#### **Analysis**

MSA did not verify the accuracy of the operating statements prepared for certain events held at the football stadium at Camden Yards, as allowed by the event agreements. Specifically, prior to each event, MSA enters into a specific event agreement with the football team, and the football team prepares an event budget. At the conclusion of the event, MSA receives an event settlement that includes an operating statement from the football team that summarizes revenues, expenses, and net revenue for the event. We noted that MSA did not review support for revenues and expenses reported on the event settlement, as allowed by the agreements. For example, for one large event for which MSA did not review support, revenues and expenses totaled \$2,574,093 and \$1,528,550, respectively, resulting in net revenues of \$1,075,358. As a result, MSA lacked assurance that it received the proper share of net revenues from those events.

Generally, the net revenues from non-professional football events (such as, concerts) held at the football stadium are evenly split with the football team, after deducting a 10 percent administrative fee, which is retained by the football team. Based on its records, MSA's revenues totaled approximately \$1.86 million from the 21 events held during our audit period.

#### **Recommendation 1**

**We recommend that MSA verify event operating statements to source documentation, at least on a test basis.**

## Cash Receipts

### **Finding 2**

**MSA did not always perform deposit verifications of recorded collections in a timely manner.**

### **Analysis**

MSA did not always perform timely verifications of recorded collections to deposits. Specifically, our test of 20 collections received during fiscal years 2011, 2012, and 2013, totaling approximately \$17.6 million, disclosed that deposit verifications for 9 collections, totaling approximately \$3.3 million, were not performed for periods ranging from 8 to 53 working days after receipt. As a result, cash receipts could be lost or misappropriated without timely detection. A similar condition was commented upon in our preceding audit report. According to MSA records, cash receipts totaled approximately \$29 million during fiscal year 2012.

### **Recommendation 2**

**We recommend that MSA perform verifications of recorded collections to deposit on a timely basis, such as daily (repeat).**

## **Audit Scope, Objectives, and Methodology**

We have audited the Maryland Stadium Authority (MSA) for the period beginning July 1, 2009 and ending October 16, 2012. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MSA's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included accounts receivable, construction project

management, bond trustee accounts, cash receipts, and procurements and disbursements. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MSA's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

MSA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

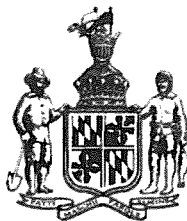
This report includes conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MSA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MSA that did not warrant inclusion in this report.

MSA's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MSA regarding the results of our review of its response.

# APPENDIX

## MARYLAND STADIUM AUTHORITY

MARTIN O'MALLEY  
GOVERNOR



MICHAEL J. FRENZ  
EXECUTIVE DIRECTOR

THE WAREHOUSE AT CAMDEN YARDS  
333 WEST CAMDEN STREET, SUITE 500  
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### MEMBERS

JOHN MORTON III  
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JOSEPH C. BRYCE  
JOHN P. COALE  
WELDON H. LATHAM  
KALIOPE PARTHEMOS  
MANERVA W. RIDDICK

September 25, 2013

Thomas J. Barnickel III, CPA  
State of Maryland  
Office of Legislative Audits  
301 West Preston Street  
Room 1202  
Baltimore, MD 21201

Re: Maryland Stadium Authority Legislative Audit  
Period of audit: July 1, 2009 to October 16, 2012

Dear Mr. Barnickel,

Please find attached the Maryland Stadium Authority's ("MSA") responses to your audit report for the period referenced above. MSA commented on each of the following of the report's two (2) findings.

MSA appreciates the efforts of your office to review our policies and procedures. MSA implemented corrected actions that will correct the findings that are address in the report.

If you have any questions or need additional information, please contact me at (410) 333-1560.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Michael J. Frenz', written over a horizontal line.

Michael J. Frenz  
Executive Director

Cc: John Morton III, Chairman  
MSA Board Members

## Accounts Receivable – Other Events

### **Finding 1**

**Maryland Stadium Authority (MSA) did not verify that event operating statements prepared by the football team were accurate to ensure the related payment to MSA were proper.**

### **Recommendation**

**We recommend that MSA verify other event operating statements to source documentation, at least on a test basis.**

### **MSA Finding Response**

MSA concurs with the recommendation and has notified the football team that a detailed accounting of each line item on the budget, both revenue and expenses, is required at the time of settlement for each event. MSA will do a review of the detailed information and submit any questions based on the review in writing to the team.

## Cash Receipts

### **Finding**

**MSA did not always perform deposit verifications of recorded collections in a timely manner.**

### **Recommendation**

**We recommend that MSA perform verifications of recorded collections to deposit on a timely basis, such as daily (repeat).**

### **MSA Finding Response**

MSA concurs with the recommendation. MSA issued a memo to the employee responsible for verifying the deposits on December 12, 2012. The employee was also instructed that if she is not able to complete the verification within the required time, another employee was identified as the appropriate backup to complete the verification in compliance with the Comptroller of the Treasury's Accounting Procedures.

AUDIT TEAM

**William R. Smith, CPA**  
Audit Manager

**Menachem Katz, CPA**  
Senior Auditor

**Daniel R. Brann, CPA**  
**Samuel Hur**  
Staff Auditors