

Audit Report

Maryland Stadium Authority

May 2010



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

May 25, 2010

Bruce A. Myers, CPA
Legislative Auditor

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., 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 June 1, 2006 and ending June 30, 2009. 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 adequately pursue collection of outstanding accounts receivable, including rental payments totaling approximately \$812,000 that have been disputed by a stadium tenant since 2008. Furthermore, MSA did not maintain documentation of time spent by its employees managing construction projects on behalf of other State agencies and local governments, and may not have recovered the appropriate amounts for such costs. We also noted internal control deficiencies in the areas of non-cash credit adjustments to accounts receivable records, cash receipts, and payroll.

An Executive Summary of our findings can be found on page 5. 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,

Bruce A. Myers, CPA
Legislative Auditor

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* Denotes item repeated in full or part from the preceding audit report

Executive Summary

Legislative Audit Report on the Maryland Stadium Authority (MSA) May 2010

- **MSA did not adequately pursue collection of certain rental payments totaling approximately \$812,000 owed by a stadium tenant relating to advertising revenue, and did not follow the regulations of the State's Central Collection Unit in regard to collecting delinquent account balances.**

MSA should immediately initiate efforts to collect the amounts owed by the tenant, and should strictly comply with the regulations of the Central Collection Unit.

- **MSA did not maintain records of the time spent by its employees managing construction projects for other agencies and, as such, MSA may not have recovered the appropriate amount of costs incurred in managing the projects.**

MSA should maintain detailed time records of time spent by employees managing construction projects for others and it should use those records to determine the actual costs incurred. MSA should also ensure that actual costs are billed and recovered.

- **Internal control deficiencies were noted over non-cash credit adjustments processed to the MSA accounts receivable records, cash receipts, and payroll processing. For example, duties were not adequately segregated over the non-cash credit process.**

MSA should take the recommended actions to improve controls in these areas.

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 2008 and 2009 were approximately \$70.3 million and \$67.2 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, 2007, 2008, and 2009. 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.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the nine findings contained in our preceding audit report on MSA dated February 12, 2007. We determined that MSA satisfactorily addressed eight of these items. The remaining item is repeated in this report.

Findings and Recommendations

Accounts Receivable

Finding 1

MSA did not adequately pursue collection of rental payments that were being disputed by a stadium tenant, and certain other delinquent accounts receivable, as required by State regulations.

Analysis

MSA did not adequately pursue collection of certain accounts receivable. According to MSA's records, as of June 2009, MSA's outstanding accounts receivable totaled approximately \$1.8 million, including accounts totaling approximately \$114,000 which were over 90 days old. Specifically, we noted the following conditions:

- MSA did not adequately pursue collection of certain rental payments being disputed by a stadium tenant. In that regard, MSA's contract with the tenant provides that the tenant's rental payments are based on a percentage of the various revenue streams earned by the tenant, including 25 percent of net ballpark advertising revenue. Moreover, as required, the tenant contracted with an independent accounting firm to review rental payments made to MSA for calendar years 2006 to 2008. In its reports on those years, the firm reported that the rental payments made by the tenant did not consider certain advertising revenues, on which the rental payments were partially based. The firm further reported that, if the advertising revenues in question were included in the rental payment calculations, the additional amount owed to MSA for calendar years 2007 and 2008 would be approximately \$812,000. The tenant does not believe that the advertising revenues in question are subject to rental payment under its interpretation of the rent provision of the contract. MSA management personnel and its legal counsel believe this advertising revenue should have been included in the rental payment calculation. However, MSA had not attempted to collect this additional rent from the tenant. According to MSA's records, rental payments made to MSA by the tenant for calendar years 2007 and 2008 totaled approximately \$12.6 million.
- Our test of 10 delinquent invoices from various vendors, with outstanding balances totaling approximately \$207,000 as of May 31, 2009, disclosed that 9 accounts totaling \$124,000 were not adequately pursued, as required by the State's Central Collection Unit (CCU) regulations. For example, for 6

invoices totaling approximately \$97,000, there was no documentation that MSA had made any collection efforts subsequent to the issuance of the initial invoices. As of May 31, 2009, these 6 invoices had been delinquent for periods ranging from approximately 3 to 33 months. Furthermore, during our audit period, no accounts were transferred to CCU for collection assistance, and MSA wrote off approximately \$158,000 in bad debts without receiving approval from CCU to delete the accounts. Although MSA did attempt to transfer one account totaling approximately \$81,000 to CCU in February 2008, we subsequently determined that CCU had not accepted the account since CCU did not have MSA established as a client in its system. However, MSA was unaware that CCU had not accepted the account until we advised them of this matter in July 2009.

CCU regulations generally require that three written demands for payment be made on accounts at 30-day intervals, and that delinquent accounts be transferred to CCU for further collection action 75 days after the initial request for payment.

Recommendation 1

We recommend that MSA

- a. immediately initiate efforts to collect the additional rental payments owed under the agreement by the stadium tenant for calendar years 2007 and 2008; and**
- b. strictly comply with the aforementioned CCU regulations, and take immediate action to collect the aforementioned receivables.**

Non-Cash Credit Adjustments

Finding 2

Internal controls over non-cash credit adjustments were inadequate.

Analysis

Internal controls over non-cash credit adjustments made to reduce accounts receivable were inadequate. Specifically, we noted that one employee effectively controlled the non-cash credit process by initiating non-cash credit requests, forwarding those requests to a second employee for recordation in MSA's automated accounts receivable records, and subsequently approving the adjustments after recordation. Additionally, there was no independent review and approval of recorded non-cash credit adjustments by independent supervisory personnel. As a result of these conditions, unauthorized adjustments could be posted to MSA's accounts receivable records. According to MSA's records, non-cash credit adjustments processed during fiscal year 2009 totaled approximately

\$640,000. Similar conditions regarding controls over non-cash credits were commented upon in our preceding audit report.

Recommendation 2

We recommend that non-cash credit adjustment requests be approved by independent supervisory personnel (repeat).

Construction Projects Managed for Other Agencies and Local Governments

Finding 3

MSA did not maintain records of the time spent by its employees managing construction projects for other State agencies and local governments, and MSA may not have recovered the appropriate amount of costs incurred in managing two projects.

Analysis

MSA did not maintain records of the time spent by its employees managing construction projects on behalf of State agencies and local governments. Rather, MSA billed the entities based on estimated costs. In that regard, for two projects during our audit period, MSA entered into memorandums of understanding (MOU) to manage the construction of facilities for a State agency and a local government. The terms of the MOUs provided that MSA was to be reimbursed for the labor costs of its staff that worked on the projects, as well as for ordinary overhead expenses. Although MSA did bill these two entities for labor costs and overhead, the basis for the billings was an estimated cost schedule contained in each MOU. Consequently, MSA was unable to accurately determine the actual costs incurred in providing construction management services on these two projects, and may not have recovered the appropriate amount of costs.

In October 2009, we obtained estimates of the time worked by MSA staff on these projects from MSA management personnel. Using these estimates, we calculated the amount that should have been billed by MSA for construction management

services and compared that amount to the actual amounts billed for the two projects. The table below shows those differences:

Project	Amount Billed	Estimated Amount That Should Have Been Billed	Estimated Amount Over/(Under) Billed
Local Government	\$261,000	\$271,000	(\$10,000)
State Agency	\$381,000	\$449,000	(\$68,000)
Totals	\$642,000	\$720,000	(\$78,000)

State law authorizes MSA to design and construct facilities on behalf of State agencies and local governments. According to its records, during our audit period, MSA was reimbursed approximately \$642,000 for managing such projects.

Recommendation 3

We recommend that MSA

- a. maintain detailed time records by individual employee for time spent managing construction projects on behalf of State agencies and local governments,**
- b. use the aforementioned time records to determine the actual costs incurred on each project, and**
- c. ensure that the costs of construction management services are fully billed and recovered from the owner of the project.**

Cash Receipts

Finding 4
MSA did not always perform verifications of recorded collections to deposit or ensure recordation in the State’s accounting records in a timely manner.

Analysis

MSA did not always perform timely verifications of recorded collections to deposits, and did not always record deposits in the State’s accounting records timely. Specifically, our test of 15 collections received during fiscal years 2008 and 2009, totaling approximately \$13.1 million, disclosed that deposit verifications for 14 collections, totaling approximately \$13 million, were not performed for periods ranging from 4 to 15 working days after deposit. In addition, 6 collections totaling approximately \$2.4 million, were not recorded in the State’s accounting records for periods ranging from 7 to 14 working days after

deposit. According to MSA records, cash receipts totaled approximately \$26.5 million during fiscal year 2009.

The Comptroller of Maryland's *Accounting Procedures Manual* requires that receipts be recorded in the State's accounting records within two business days of deposit.

Recommendation 4

We recommend that MSA

- a. perform verifications of recorded collections to deposit on a timely basis, such as daily; and**
- b. record collections in the State's accounting records on a timely basis.**

Payroll

Finding 5

Time reports were not properly reviewed.

Analysis

Supervisory personnel who approved the online payroll time reports did not review supporting documentation for any of the adjustments (such as overtime and shift differential) included on those reports. As a result, errors or irregularities could occur without detection. According to its records, MSA's payroll (excluding fringe benefits) totaled approximately \$5.6 million during fiscal year 2009, including \$115,236 for overtime and shift differential.

Recommendation 5

We recommend that the employee responsible for approving the online payroll time reports verify, at least on a test basis, the adjustments recorded to supporting documentation.

Audit Scope, Objectives, and Methodology

We have audited the Maryland Stadium Authority (MSA) for the period beginning June 1, 2006 and ending June 30, 2009. 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, 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.

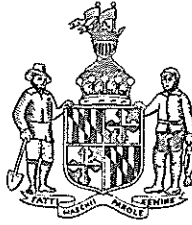
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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 report also includes findings regarding 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.

MARYLAND STADIUM AUTHORITY

MARTIN O'MALLEY
GOVERNOR



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May 25, 2010

Mr. Bruce Myers
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, MD 21201

Re: Maryland Stadium Authority Legislative Audit
Period of audit: June 1, 2006 to June 30, 2009

Dear Mr. Myers:

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

Since the previous legislative audit from February 2007, MSA made changes in management along with implementing several new policies and procedures that address many of the issues identified in the 2007 audit report. MSA feels those changes and the progress made are reflected in this report.

MSA appreciates the efforts of your office to review our business practices. MSA has implemented addition policies and procedures that will correct the findings that are address in this report.

Very truly yours,

Michael J. Frenz
Executive Director

Cc: John Morton, III
MSA Board Members

Maryland Stadium Authority
Responses to the Discussion Notes

Accounts Receivable

Finding 1

MSA did not adequately pursue collection of rental payments that were being disputed by a stadium tenant, and certain other delinquent accounts receivable, as required by State regulations.

Recommendation 1

We recommend that MSA

- a. immediately initiate efforts to collect the additional rental payments owed under the agreement by the stadium tenant for calendar years 2007 and 2008; and**
- b. strictly comply with the aforementioned CCU regulations, and take immediate action to collect the aforementioned receivables.**

MSA Finding 1a Response

Due to the reporting and review process established in the stadium lease, MSA did not receive a final report from the independent accounting firm, identifying the unpaid rent issue for rent year 2007 until June 2009. Upon receipt, MSA contacted the tenant regarding this rent issue for both 2007 and 2008. Specifically, by letter dated June 29, 2009, MSA forwarded the accounting report and requested a meeting with the tenant to discuss this issue, as well as others.

At the end of the season, the parties met, along with counsel, to discuss collection of the rent deficiency, among other lease issues. At a meeting dated September 23, 2009, MSA repeated the request for payment from the tenant, based upon the advertising signage. At that time, the tenant and its counsel argued that the lease did not permit collection of rent based on this particular advertising. MSA asked the tenant to produce any support or analysis that they had for this legal argument.

After further investigation, consideration by the MSA Board, and discussions with the tenant through December 7, 2009, MSA provided a written demand for payment of rent based on the advertising in question, in accordance with the notice requirements of the lease. By e-mail dated December 18, 2009 and letter dated December 21, 2009, the tenant rejected the demand and reiterated their interpretation that the contract between the parties did not provide a basis for rent collection, due to the specific nature of the signage at issue.

Since then the parties have continued to meet and have discussed the terms of a possible settlement and associated lease amendment. If this rent dispute cannot be resolved to MSA's satisfaction, then the MSA Board will determine whether to submit the issue to arbitration.

Under the terms of the lease between the parties, arbitration is the exclusive legal remedy available to MSA for this dispute. Once arbitration is filed, the Stadium tenant have the opportunity to assert within the same proceeding any and all claims against MSA under the lease. In the past, such arbitration proceedings have proven to be expensive, burdensome and with uncertain outcomes for the State. As a result, to date, MSA has made a concerted effort to resolve this dispute in lieu of arbitration.

MSA Finding 1b Response

MSA concurs with the recommendation and will implement the appropriate procedures to comply with the regulations set by the Central Collection Unit. MSA has designated an individual in the fiscal department that will be the primary person responsible for collections. MSA will also consider potentially outsourcing the collections of Accounts Receivable.

Non-Cash Credit Adjustments

Finding 2

Internal controls over non-cash credit adjustments were inadequate.

Recommendation 2

We recommend that non-cash credit adjustment requests be approved by independent supervisory personnel (repeat).

MSA Finding 2 Response:

MSA concurs with the recommendation. MSA has adopted new procedures that require Executive Director approval of any credit memos or non-cash adjustments in accounts receivable. These procedures have been in place since September 2009.

Construction Projects Managed for Other Agencies and Local Governments

Finding 3

MSA did not maintain records of the time spent by its employees managing construction projects for other State agencies and local governments, and MSA may not have recovered the appropriate amount of costs incurred in managing two projects.

Recommendation 3

We recommend that MSA

- a. maintain detailed time records by individual employee for time spent managing construction projects on behalf of State agencies and local governments,**
- b. use the aforementioned time records to determine the actual costs incurred on each project, and**
- c. ensure that the costs of construction management services are fully billed and recovered from the owner of the project.**

MSA Finding 3 Response

MSA concurs with the recommendations; and has begun coding timesheets in order to track actual hours spent on such projects for appropriate personnel. This allows MSA to determine and recover its actual labor costs for projects for which the MSA Capital Project team charges fees for their services. With respect to the two projects managed for other State agencies and local governments for which “MSA may not have recovered the appropriate amount of costs”, MSA has billed one party for the balance of the fees and will bill the other at the conclusion of the project.

Cash Receipts

Finding 4

MSA did not always perform verifications of recorded collections to deposit or ensure recordation in the State’s accounting records in a timely manner.

Recommendation 4

We recommend that MSA

- a. perform verifications of recorded collections to deposit on a timely basis, such as daily; and**
- b. record collections in the State’s accounting records on a timely basis.**

MSA Finding 4 Response

MSA concurs with the recommendation and in January 2010 implemented the necessary procedures to ensure that verification and collections in the State’s accounting records are being performed in compliance with the Comptroller of the Treasury’s Accounting Procedures Manual.

Payroll

Finding 5

Time reports were not properly reviewed.

Recommendation 5

We recommend that the employee responsible for approving the online payroll time reports verify, at least on a test basis, the adjustments recorded to supporting documentation.

MSA Finding 5 Response

MSA concurs with the recommendation. In January 2010, procedures were implemented that require the employee responsible for approving the online payroll time to have the necessary documentation to support any exception on payroll, including overtime, furlough, and all salary adjustments. For each pay period, the documentation for the exception will be provided to the employee responsible. The employee responsible for approving the payroll will note which payroll week was tested.

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