

## Agenda Report

18-319

Agenda Date: 3/19/2018

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### REPORT TO AD-HOC STADIUM AUDIT COMMITTEE

#### **SUBJECT**

Review of options for Santa Clara Stadium Authority (SCSA) Auditor

#### **BACKGROUND**

On June 15, 2016, the Santa Clara County Civil Grand Jury issued a report entitled “The City of Santa Clara, The Santa Clara Stadium Authority, Levi's Stadium and Measure J” that included a recommendation to “modify the duties of the Finance Director/Treasurer/Auditor position as described in the Joint Exercise of Powers Agreement Establishing the Santa Clara Stadium Authority (JPA) Agreement”. The SCSA Board accepted the recommendation.

On June 27, 2017, the City Council approved the Third Amendment to the Joint Exercise of Powers Agreement (Amended JPA Agreement), including amending Section 3.11, Treasurer and Auditor, to separate duties of the Stadium Finance Director/Treasurer/Auditor function into two positions - Stadium Authority Treasurer and Stadium Authority Auditor. Per the Amended JPA Agreement, the Auditor of the Stadium Authority shall be designated by appointment and/or by contract by the Stadium Authority Board. The Stadium Authority Board appointed Auditor's sole duty is to “designate such independent auditing responsibility as it deems necessary including but not limited to making arrangements with a certified public accountant or firm of certified public accountants for the annual independent audit of accounts and records of the Stadium Authority.” This means that there is a minimum set of actions required for the Auditor, e.g., fiscal audits, and there is authority to perform additional reviews as deemed needed. Additionally, the JPA states the records and the accounts of the Stadium Authority shall be audited annually by an independent certified public accountant (CPA) designated by the Executive Director (Section 6.2 Audit).

#### **DISCUSSION**

The annual audit requirement is currently satisfied as part of the annual preparation of the Comprehensive Annual Financial Report (CAFR). An auditing firm examines the accounting and financial records to provide an independent opinion on the financial position of the Authority. The audit begins with interim fieldwork examining the internal controls of the Authority to assess the risk of fraud or errors in financial reporting. Once audit risk is determined, the auditors return for final fieldwork, after the close of the fiscal year, to conduct substantive procedures to analyze account balances, perform analytical review of budget and year over year variances, review specific receipts and invoices, and independently confirm material transactions with third parties. These procedures are conducted to report if the Authority is in compliance with generally accepted accounting principles. Once these procedures are completed, the audit firm issues their opinion on financial position of the Authority.

For any audit beyond the annual financial audit, such as management and auditing of records and performance, current resources are not adequate. Previously, the Board relied on existing staff that were not trained or credentialed in proper audit processes and policies, and were assigned to both the role of processing the transactional fiduciary responsibilities, as well as tasked with auditing the performance of those transactions.

The recent collaborative work by SCSA Staff and the Stadium Manager to issue a Concessions Operating Agreement demonstrates the threshold required to produce the level of detail regarding financial performance and accountability desired by the SCSA Board. This agreement, presented to the Board on February 27, 2018 includes Exhibit B, Sample Budget/Operating Costs Report (Attachment 1), which provides the thorough performance details required for the Stadium Authority to fulfill its auditing requirements per the existing agreements.

As referenced in the separate update report on the audit recommendations, SCSA staff has prepared an outline of the audit program that will need to be resourced and developed in order to successfully audit at the level desired by the SCSA Board relative to non-NFL events for past fiscal years. Staff will present a visual diagram of this outline at this March 19, 2018 Stadium Audit Committee meeting to illustrate the complexity, and magnitude, of this effort.

With the agreement provisions, the Board could appoint a City employee to serve as the Stadium Authority Auditor, who would oversee the work. As discussed during the January Priority Setting Session, the City is in need of a robust audit and contract management function. Although currently vacant, the Assistant Treasurer could function as the Stadium Authority Auditor and meet the requirements by selecting the firm as required and working with consultants for additional reviews. Alternatively, the Board could appoint a firm or person to function as Stadium Authority Auditor. If the Board prefers the appointment of firm or person to function as Stadium Authority Auditor, staff would return with a selection criteria and process and additional budget to cover a more robust approach.

### **FISCAL IMPACT**

Depending on the action the Ad-Hoc Committee is recommending to the Board, the fiscal impact will be determined at that time. It should be noted that the FY 2018/19 Proposed SCSA Budget includes \$100,000 for this work.

For instance, if the Assistant Treasurer is selected, the reviews would be done by targeted consultant services, whereby a scope and cost is determined prior to a review, and cost-savings achieved by the Assistant Treasurer serving as the contract administrator of these services.

If there is a decision to not designate the Assistant Treasurer, then the Board would enter into contract for a firm to serve the role as auditor and conduct all of the requested audits, at a cost to (1) serve in that designated role and (2) perform the targeted reviews.

**ALTERNATIVES**

1. Direct the Executive Director to bring forward for the Board's consideration the appointment of a City employee to the position of Auditor of the Stadium Authority.
2. Direct the Executive Director to bring forward for the Board's consideration criteria and selection process for the appointment of a firm or person to assume the role of Auditor of the Stadium Authority.
3. Any other action by the Board.

**RECOMMENDATION**

Staff makes no recommendation, but looks forward to the SCSA Board action to put audit resources in place.

Prepared by: Catlin Ivanetich, Assistant to the Executive Director

Reviewed by: Brian Doyle, Counsel

Reviewed by: Walter C. Rossmann, Chief Operating Officer

Approved by: Deanna J. Santana, Executive Director

**ATTACHMENTS**

1. Concessions Operating Agreement Exhibit B, Sample Budget/Operating Costs Report

Concessions Operating Agreement  
 by and between Forty Niners Stadium Management Company LLC  
 and Levy Premium Foodservice Limited Partnership  
 Dated February 20, 2018

**EXHIBIT B**

**Sample Budget/Operating Costs Report**

OPERATING INCOME STATEMENT		YEAR 1 P R O F O R M A						
LEVI'S STADIUM								
	NFL		CITY					TOTAL
<b>Gross Sales</b>								
Concessions	\$	%	\$	%				\$ %
Clubs	\$	%	\$	%				\$ %
Net Subcontractors	\$	%	\$	%				\$ %
In Seat	\$	%	\$	%				\$ %
Suites	\$	%	\$	%				\$ %
Catering	\$	%	\$	%				\$ %
	\$	%	\$	%				\$ %
<b>Sales Total</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>				<b>\$ %</b>
<b>Other Income</b>								
Service Charges and Gratuities	\$	%	\$	%				\$ %
<b>Other Income Total</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>				<b>\$ %</b>
<b>Adjustments to Gross Sales</b>								
Sales Taxes								
Gratuities								
Cost F&B services								
Service Charges (paid to employees)								
Credit Card Fees								
Other								
<b>Adjustments to Gross Sales Total</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>				<b>\$ %</b>
<b>Total Gross Receipts</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>				<b>\$ %</b>
<b>Product Cost</b>								
Concessions	\$	%	\$	%				\$ %
Clubs	\$	%	\$	%				\$ %
Net Subcontractors	\$	%	\$	%				\$ %
In Seat	\$	%	\$	%				\$ %
Suites	\$	%	\$	%				\$ %
Catering	\$	%	\$	%				\$ %
<b>Product Cost Total</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>				<b>\$ %</b>
<b>Directly Attributable Costs</b>								
<b>Payroll</b>	NFL		CITY		Joint Expenses		Total Joint	TOTAL
	NFL	CITY	NFL	CITY	NFL	CITY		
Management	\$	%	\$	%				\$ %
Hourly Labor	\$	%	\$	%				\$ %
Service Charge	\$	%	\$	%				\$ %
Taxes, Benefits, Workmen's Compensation & Union	\$	%	\$	%				\$ %
<b>Payroll Total</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>				<b>\$ %</b>

Operating Expenses	Directly Attributable Costs		Joint Expenses		Total Joint Expenses	TOTAL	
	NFL	CITY	NFL	CITY			
Advertising and Classifieds (Recruiting)	\$ %	\$ %					\$ %
Alarm	\$ %	\$ %					\$ %
Armored Car Service	\$ %	\$ %					\$ %
Audit Fees	\$ %	\$ %					\$ %
Bank Charges	\$ %	\$ %					\$ %
Bond Expense	\$ %	\$ %					\$ %
Brand Franchise / Royalty Fees	\$ %	\$ %					\$ %
Cleaning Supplies	\$ %	\$ %					\$ %
Computer/Software Fees	\$ %	\$ %					\$ %
Customer Survey Costs	\$ %	\$ %					\$ %
Dues/ Subscriptions	\$ %	\$ %					\$ %
Entertainment	\$ %	\$ %					\$ %
Equipment Rental	\$ %	\$ %					\$ %
Flowers/ Music	\$ %	\$ %					\$ %
Ice	\$ %	\$ %					\$ %
Insurance	\$ %	\$ %					\$ %
Laundry / Linen	\$ %	\$ %					\$ %
Licenses and Permits	\$ %	\$ %					\$ %
Menus	\$ %	\$ %					\$ %
Office Expenses	\$ %	\$ %					\$ %
Paper Supplies	\$ %	\$ %					\$ %
Pest Control	\$ %	\$ %					\$ %
Postage / Freight	\$ %	\$ %					\$ %
Printing	\$ %	\$ %					\$ %
Professional Fees	\$ %	\$ %					\$ %
Recruiting Expense	\$ %	\$ %					\$ %
Relocation Expense	\$ %	\$ %					\$ %
Smallwares	\$ %	\$ %					\$ %
Telephone	\$ %	\$ %					\$ %
Trash Removal	\$ %	\$ %					\$ %
Travel and Meals	\$ %	\$ %					\$ %
Utilities	\$ %	\$ %					\$ %
Uncollectible Amounts	\$ %	\$ %					\$ %
Uniforms	\$ %	\$ %					\$ %
Vehicle Expense/Shuttle	\$ %	\$ %					\$ %
Other	\$ %	\$ %					\$ %
Operating Expenses Total	\$ %	\$ %	\$	\$			\$ %
Joint Expenses Total	\$ %	\$ %					
Total Operating Costs	\$ %	\$ %					\$ %

Exhibit B – Sample Budget/Operating Costs Report

PROFITS AVAILABLE FOR DISTRIBUTION	\$	%	\$	%				\$	%
Concessionaire Preference Payment	\$	%	\$	%				\$	%
Investment Use Fee	\$	%	\$	%				\$	%
Renewal and Replacement Amount	\$	%	\$	%				\$	%
Annual 49ers Preference	\$	%	\$	%				\$	%
Commissions to City	\$	%	\$	%				\$	%
Levy Management Fee	\$	%	\$	%				\$	%
NET RECEIPTS	\$	%	\$	%				\$	%
49ers Share of Net Receipts	\$	%	\$	%				\$	%
PROFITS PAYABLE TO 49ERS	\$	%	\$	%				\$	%