

Audit Report

Maryland Stadium Authority

June 2021



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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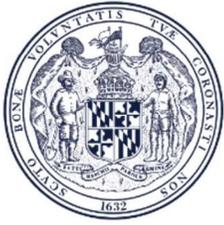
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

June 9, 2021

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Stadium Authority (MSA) for the period beginning July 1, 2016 and ending September 30, 2020. MSA is primarily responsible for developing, constructing, and maintaining certain facilities (such as sports facilities, convention centers, and entertainment venues) as authorized by law.

Our audit did not disclose any findings that warrant mention in 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 "Gregory A. Hook".

Gregory A. Hook, CPA
Legislative Auditor

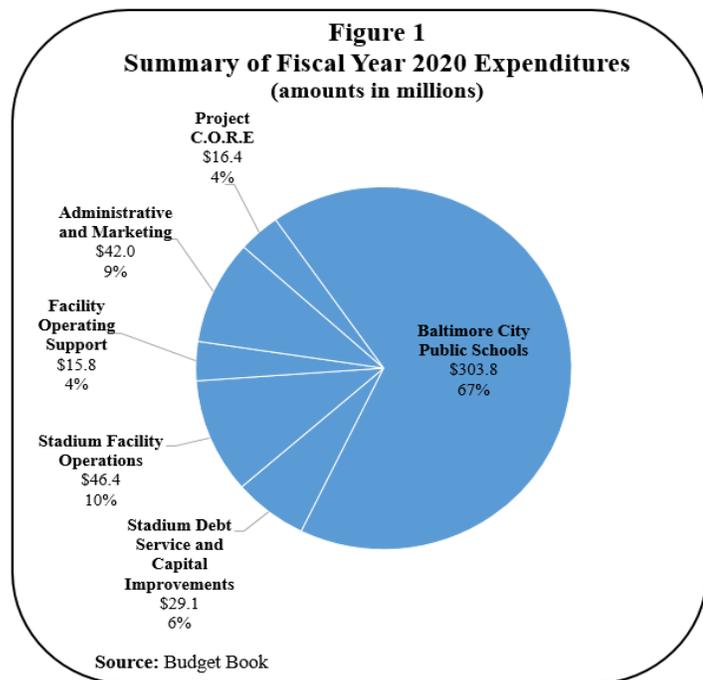
Background Information

Agency Responsibilities

The Maryland Stadium Authority (MSA) is an instrumentality of the State of Maryland, a public corporation, and an independent unit of state government. 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 serve 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.

MSA is responsible for developing, constructing, and maintaining certain facilities (such as sports facilities, convention centers, and entertainment venues). 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. Current MSA major projects include overseeing the construction and revitalization of Baltimore City public schools, and the demolition of blighted structures located throughout Baltimore City as part of Project C.O.R.E (Creating Opportunities for Renewal and Enterprise). During our audit period, MSA began significant projects such as the Fair Hill Special Event Zone and another expansion project of the Ocean City Convention facility. Finally, in accordance with Chapter 590, Laws of Maryland 2020, MSA recently began a \$375 million redevelopment project of the Pimlico and Laurel Park Racing Facilities, but MSA did not have any expenditures related to the design and construction of the project during our audit period.

According to the State’s records, MSA’s total expenditures for fiscal year 2020 were approximately \$453.5 million (see Figure 1) and were paid from MSA income, bond proceeds, and State lottery special funds.



Agency Budget Oversight

The Economic Development Article, Section 10-623(1) of the Annotated Code of Maryland specifies that MSA's annual budget be submitted to the Department of Budget and Management for inclusion in the State budget book 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.

Affiliated Foundation

Chapter 575, Laws of Maryland 2017, effective May 25, 2017 authorized MSA to establish one or more affiliated foundations to work with the Office of Maryland Sports, a unit within MSA. According to the law, any affiliated foundation established is not considered an agency or instrumentality of the state but MSA may grant up to \$500,000 in available non-budgeted money to any of these affiliated foundations.

In May 2019, MSA established an affiliated foundation with a mission to incubate cultural and operational events for large scale sport and entertainment in Maryland. The purpose of this foundation includes supporting the Office of Maryland Sports in hosting major sports events; promote regional, national, and international sports events in Maryland; recruit, retain, market, promote, and manage sports events in Maryland. It also solicits and receives contributions from businesses, governmental entities, nonprofit entities, and individuals interested in the promotion of sports in Maryland. As of April 2021, MSA awarded grants collectively totaling \$286,900 to this foundation for fiscal years 2020 through 2022.

Financial Statement Audits

MSA engaged an independent certified public accounting firm to audit its financial statements for the fiscal years ended June 30, 2017, 2018, 2019, and 2020. In the related audit reports, the firm stated that MSA's financial statements present fairly, in all material respects, the financial position of MSA as of June 30, 2017, 2018, 2019, and 2020 and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Resource Sharing Agreements (RSAs)

On August 3, 2018, we issued a performance audit report on *Telecommunication Resource Sharing Agreements* which contained several findings related to MSA. This audit report included a number of findings related to selected agencies, but emphasized the need for the Department of Information Technology to exercise greater oversight of the RSAs entered into by State agencies in general. The performance audit included the following select findings related to MSA.

- MSA did not maintain a comprehensive list of its RSAs.
- MSA did not deposit RSA funds into the State's Major Information Technology Development Project fund as required at the time of the audit.
- MSA did not always include adequate provisions in its agreements to protect the State.
- MSA executed and renewed resource sharing agreements without proper approvals.

MSA agreed to the findings and recommendations in the August 2018 report.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of MSA's internal control. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Findings that did not warrant inclusion in this report were separately communicated to MSA.

A draft copy of this report was provided to MSA. Since there are no recommendations in this report, a written response was not necessary.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Stadium Authority (MSA) for the period beginning July 1, 2016 and ending September 30, 2020. 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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included accounts receivable, construction projects, bond trustee accounts, cash receipts, payroll, procurement, and disbursements.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of July 1, 2016 to September 30, 2020, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of MSA's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the materiality of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

MSA engages an independent accounting firm to audit its annual financial statements. In the related audit reports for the fiscal years ended June 30, 2017, 2018, 2019, and 2020 the firm stated that MSA's financial statements presented fairly, in all material respects, the financial position of MSA as of June 30, 2017, 2018, 2019, and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. We have relied on the work of the independent accounting firm to provide audit coverage pertaining to debt issuances and the related amortization, and certain payroll and cash receipts

activity. Our audit procedures in those areas were generally limited, therefore, to obtaining a sufficient basis for that reliance.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from MSA's internal accounting system for the purpose of testing payments posted to the accounts receivable records. We performed various tests of the relevant data and determined the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to MSA, were considered by us during the course of this audit.

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.

MSA agreed to a request from the legislature in March 2019 to manage a building renovation project for the Department of Legislative Services (DLS). As of December 2020, MSA had procured one contract related to the project totaling \$612,000 with related payments of \$301,000. Our Office is a unit within DLS, but in our opinion, the contractual nature of the relationship, does not impair our independence during our audit of MSA.

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.

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