

STATE OF CONNECTICUT

**AUDITORS' REPORT
REVIEW OF INTERNAL CONTROLS
OFFICE OF POLICY AND MANAGEMENT AND
RENTSCHLER FIELD STADIUM
AS OF OCTOBER 31, 2003**

AUDITORS OF PUBLIC ACCOUNTS
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November 26, 2003

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In accordance with Section 32-657 of the General Statutes, as amended by Public Act 03-6 of the June Special Session, the Auditors of Public Accounts conducted an audit of the internal controls of the Rentschler Field Stadium Facility.

Our audit was conducted in accordance with generally accepted government auditing standards and included such tests of the accounting records and controls of the Office of Policy and Management and the Rentschler Field Stadium Facility, as managed by Madison Square Garden CT, LLC that we considered necessary to enable us to evaluate internal control structure policies and procedures established to assure compliance with applicable provisions of financial related laws, regulations and contracts.

This report consists of the following Comments, Findings and Certification.

COMMENTS:

Foreword:

The Rentschler Field Stadium Facility is authorized by Chapter 588z (Sections 32-650 through 32-669, as amended by Public Act 03-6 of the June Special Session) of the General Statutes. Section 32-652 of the General Statutes authorized the issuance of bonds not to exceed an aggregate of \$91,200,000 plus additional issuance costs.

In accordance with Sections 32-655 and 32-656 of the General Statutes, the Secretary of the Office of Policy and Management (OPM) was authorized to acquire the necessary real property for the Stadium Facility site, contract for professional services related to the design and construction of the Stadium, coordinate the project with other State agencies, and provide for most facets of the Stadium Facility operations. The Secretary of OPM has designated an OPM employee to function as a contract compliance officer to monitor compliance of the Stadium Facility with the provisions of applicable State laws.

Section 32-657 of the General Statutes requires OPM to produce annual operating and capital budgets for the Stadium Facility. Said Section also authorizes the establishment of an enterprise fund to account for the operations of the Stadium.

Stadium Administration:

OPM has entered into various contractual agreements for the operation of the Stadium Facility. For purposes of these agreements, OPM represents the State as the “owner” of the Stadium and the University of Connecticut is the primary “tenant” of the Facility. The lease grants the University the use of the Stadium Facility for ten home football games, or other events in addition to the home games, up to a total of ten events, until June 30, 2023. The lease agreement provides that the University pay OPM a base rent and any incremental operating expenses.

OPM has contracted with Madison Square Garden, CT, LLC, to manage the Stadium Facility. In turn, Madison Square Garden has entered into management agreements with other providers for the parking facilities and concessions and catering.

The contractual agreement with Madison Square Garden (MSG) specifically requires them to develop an adequate accounting system and controls, including cash handling, consistent with industry standards. It also requires that MSG provide accounting reports to OPM on an annual, monthly and event basis, and retain records for a minimum period of seven years. By contract MSG is also responsible for the maintenance and repair of the Stadium Facility as well as its security when it is not in use.

CONDITION OF RECORDS

Our examination noted the following areas that were in need of improvement:

Documentation of the Modification of Contract Terms:

Criteria: Changes to the terms of a contract and associated policies should be evidenced by a formal agreement signed by all parties.

Both the contract between the concession operator and MSG and the concession agreement between MSG and the State provide that the agreement may be modified only “by written instrument signed by the duly authorized officers of the parties thereto”.

Due to the infancy of the Stadium Project, the likelihood of the need for future amendments to contract terms and associated policies is high.

Condition: Subsequent to the original agreement with the catering and concession operator, a decision was made to modify the pricing structure. The only available documentation of this change was a copy of an e-mail memorandum. This form of record did not provide a means to evidence that all parties had agreed to the changes.

Effect: Such a practice does not conform to standard business practices and the applicable contract terms.

The ability to compare the agreed-upon terms to the practices used by the contractor is made more difficult when the terms are not in the contract itself. The failure to modify the original contract terms and associated policies increases the risk that subsequent revisions may impact previous revisions and not be detected. The lack of evidence that all parties agreed to the amended terms places the validity of the document in question.

Discussion with OPM officials revealed the intention to resolve this particular situation by amending the price list, which can be done without requiring a contract amendment because such a change is seen as constituting a policy change.

Cause: This process was seen as more expeditious than amending the original contract.

Recommendation: Steps should be taken to ensure that all revisions to the terms of Stadium Facility contracts and related policies are properly authorized and formally incorporated into the agreements. (See Recommendation 1.)

Agency Response: “OPM agrees with the recommendation. Changes to policies enabled by contract should be appropriately documented and signed by the respective parties. The contract with the concessionaire requires an approval of pricing policy by Madison Square Garden. In this instance, Madison Square Garden, in an effort to be expeditious, provided the concessionaire with an e-mail authorizing a modification to the existing pricing policy. However, the concessionaire implemented the change without documentation of their understanding or agreement. The modification will now be documented within the pricing policies as required by the existing contract.”

Accountability of Suite Catering Activity:

Background: The Stadium Facility has 38 luxury suites that are available to be leased for an entire season. The concession contractor has the exclusive right to provide catering services to those suites. At the time of our review, approximately one-half of these were leased. On a game-by-game basis, UCONN officials have the ability to permit groups to use the unoccupied suites.

Criteria: Provisions of the catering and concession contract call for the State to receive commissions based on the gross revenues from each event.

Condition: While some suites are sold for an entire season, other suites may be occupied on a game-by-game basis.

After each event, the catering contractor reports the catering sales by each individual suite number. However, there is no process in place to compare the known occupied suites to the sales report.

Effect: There is reduced assurance that the catering contractor is reporting all of the sales.

Cause: The Stadium manager is not informed which suites are occupied during an event.

Recommendation: The sales reports provided by the catering contractor should be reconciled to a list of suites known to have been occupied for each event. (See Recommendation 2.)

Agency Response: “OPM agrees with the recommendation. The primary tenant now is providing a list of suite occupancy for each game. This list is compared with food and beverage activity reports. Suites identified as occupied with no food and beverage activity are discussed with the catering contractor to confirm said inactivity.”

Accountability of Parking Fees:

- Criteria:* In order to ascertain if the proper parking fees are collected, an accountability report should be generated that matches the number of each type of vehicle with the corresponding fee.
- Condition:* The parking fee for larger vehicles (limousines, busses and recreational vehicles) has been set at two or three times the passenger vehicle fee. Each vehicle is issued an identical ticket. Under the current process, parking revenue is compared to the number of tickets issued. Since the fees paid by the larger vehicles is greater, it is understood that attendants will likely have “overages” in their collections. However, there is reduced assurance that the “overages” are sufficient to cover the fees that exceed the number of tickets issued.
- Effect:* There is reduced assurance that the correct parking fees were deposited by each attendant.
- Cause:* The parking contractor had not yet devised a system to account for other than the standard parking fees.
- Recommendation:* Consideration should be given to establishing a system that will provide improved accountability over parking fee revenue. (See Recommendation 3.)
- Agency Response:* “OPM agrees with the recommendation. The parking contractor developed and implemented a process effective with the October 4, 2003 Lehigh football game. The contractor issues the amount of parking tickets appropriate for the dollar value. For example, the parking fee for a recreational vehicle is \$20.00. As each parking ticket is worth \$10.00, the cashiers are instructed to issue two tickets to represent the \$20.00 payment. Additionally, the parking fee for a bus is \$30.00, and the cashiers are instructed to issue three tickets to represent the \$30.00 amount. The cashiers are reconciled accordingly (tickets and cash). It should be noted that the number of vehicles that this process pertains to is minimal – perhaps less than 20 such vehicles per game.”

RECOMMENDATIONS

- 1. Steps should be taken to ensure that all revisions to the terms of Stadium Facility contracts and related policies are properly authorized and formally incorporated into the agreements.**

Comment:

We noted changes to contract terms and related policies that were recorded only through an email document without the benefit of signatures as required by contract provisions.

- 2. The sales reports provided by the catering contractor should be reconciled to a list of suites known to have been occupied for each event.**

Comment:

The process currently in place does not provide assurances that all suite sales are accounted for.

- 3. Consideration should be given to establishing a system that will provide improved accountability over parking fee revenue.**

Comment:

All vehicles were accounted for at the same rate, despite three different fees.

INDEPENDENT AUDITORS' CERTIFICATION

As required by Public Act 03-6, June Special Session, we have audited the internal controls of the Office of Policy and Management and Rentschler Field Stadium, as managed by Madison Square Garden CT, LLC. This audit was primarily limited to understanding and evaluating the effectiveness of the Stadium Facility's internal control policies and procedures for ensuring that (1) the financial transactions of the Stadium Facility are properly recorded, processed, summarized and reported on consistent with management's authorization, and (2) the assets of the Stadium Facility are safeguarded against loss or unauthorized use.

The Office of Policy and Management and the management of the Rentschler Field Stadium Facility are responsible for establishing and maintaining effective internal control over its financial operations, safeguarding of assets, and compliance with the requirements of laws, regulations, contracts and grants applicable to the Stadium Facility. Our responsibility is to express an opinion on the effectiveness of internal control based on our examination.

We conducted our audit in accordance with generally accepted auditing standards. We applied the assertions embodied by the Comptroller in preparing the State's financial statements and in controlling the Stadium Facility's ability to safeguard the State's resources. Accordingly, our examination included obtaining an understanding of the Stadium Facility's internal control over its financial operations and safeguarding of assets, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of the inherent limitations in any system of internal control, misstatements due to error and fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our consideration of the internal control over the Stadium Facility's financial operations and over compliance would not necessarily disclose all matters in the internal control that might be material or significant weaknesses. A material or significant weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants or failure to safeguard assets that would be material in relation to the Stadium Facility's financial operations or noncompliance which could result in significant unauthorized, illegal, irregular or unsafe transactions to the Stadium Facility's being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control that we consider to be material or significant weaknesses.

In our opinion, the Office of Policy and Management maintained, as of October 31, 2003, and in all material respects, effective internal control based on the assertions embodied by the Comptroller in preparing the State's financial statements and in controlling the Stadium Facility's ability to safeguard the State's resources for the Rentschler Field Stadium Facility.

However, we noted certain matters involving the internal control over the Agency's financial operations, safeguarding of assets, and/or compliance, which are described in the accompanying "Condition of Records" and "Recommendations" sections of this report.

This report is intended for the information of the Governor, the State Comptroller, the Appropriations Committee of the General Assembly and the Legislative Committee on Program Review and Investigations. However, this report is a matter of public record and its distribution is not limited.

CONCLUSION:

We wish to express our appreciation for the cooperation and courtesy extended to our representatives by the officials and staff of the Office of Policy and Management during this examination.

Kenneth Post
Principal Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts