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Missouri State Auditor

Jackson County Sports Complex Authority



December 2011

Report No. 2011-114

<http://auditor.mo.gov>



Thomas A. Schweich
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the Jackson County Sports Complex Authority

Background	The Jackson County Sports Complex Authority (Authority) is a body corporate and politic and a political subdivision of the state of Missouri. The Authority was created by statute to oversee the construction of the Harry S. Truman Sports Complex, a dual stadium complex for football and baseball. The Authority is party to 25-year lease agreements with the Kansas City Royals and the Kansas City Chiefs signed in 2006, when renovations to the complex were started. These amended leases shifted the primary responsibility for long-term maintenance of the stadiums to the teams and require the teams pay rent to the Authority. The Authority pays management fees to the teams under a management contract to compensate the teams for the cost of utilities and managing the daily operations of the stadiums. The Authority is governed by a five-member board of commissioners, each of whom is recommended by the Jackson County legislature and appointed by the Governor with the advice and consent of the Senate. The Authority employs an executive director and office manager.
Closed Meetings	On several occasions, the Authority said it was closing a meeting to discuss one topic, but then discussed other topics, some of which were not allowable under the Sunshine Law.
Insurance Coverage	The Chiefs and Royals are contractually required to maintain liability insurance on the respective stadiums, and Jackson County fulfills the Authority's duty to maintain casualty insurance, but the Authority did not request proof of insurance from any of these parties to confirm that adequate coverage is in place.
Expenditures	The Authority did not maintain adequate supporting documentation for some expenditures. The Authority purchased a chartered flight for \$6,500, but the voucher does not indicate who was on the flight or the purpose for the flight. In addition, the Executive Director's expense reports did not always document the purpose of the expenses. The Authority does not always competitively bid professional services, such as legislative, accounting and audit, and legal services, as is required by Section 64.940.3, RSMo.
Tickets and Suite Usage	The Authority does not adequately document who uses its tickets for the Royals home baseball games or its suite at the Chiefs home football games, making it difficult to ensure the cost of providing food, beverages and tickets to state and local public officials is reported to the Missouri Ethics Commission. Between January 2008 and December 2010, the Authority's lobbyist reported only \$1,857 in expenditures provided to public officials at Chiefs games and reported no expenditures for use of Royals tickets by public officials.

Board Supervision

The Authority's Board of Commissioners should improve its oversight of the Authority's activities. The Board does not usually request supporting documentation for expenditures, and there is no documentation that the Board provides any other type of supervision over the activities of the Executive Director.

In the areas audited, the overall performance of this entity was **Good**.*

American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

The Jackson County Sports Complex Authority did not receive any federal stimulus monies during the audited time period.

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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Jackson County Sports Complex Authority

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THOMAS A. SCHWEICH

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Members of the Missouri General Assembly
and
Members of the Jackson County Sports Complex Authority
Kansas City, Missouri

We have audited certain operations of the Jackson County Sports Complex Authority in fulfillment of our duties under Chapter 29, RSMo. The authority engaged Cudney, Ecord, McEnroe & Mullane LLC, Certified Public Accountants, to audit the authority's financial statements for the 3 years ended December 31, 2010. To minimize duplication of effort, we reviewed the CPA firm's audit reports. The scope of our audit included, but was not necessarily limited to, the years ended December 31, 2010, 2009, and 2008. The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions.
2. Evaluate the authority 's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the authority, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the authority's management and was not subjected to the procedures applied in our audit of the authority.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures.

The accompanying Management Advisory Report presents our findings arising from our audit of the Jackson County Sports Complex Authority.



Thomas A. Schweich
State Auditor

The following auditors participated in the preparation of this report:

Deputy State Auditor:	Harry J. Otto, CPA
Director of Audits:	John Luetkmeyer, CPA
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Jackson County Sports Complex Authority

Management Advisory Report

State Auditor's Findings

1. Closed Meetings

Information provided in the closed session minutes for several meetings was not sufficient to demonstrate that issues discussed were allowable under the Sunshine Law.

- The open session minutes for meetings held by the Board during February and April 2008 cited personnel issues as the reason for closing the meeting, but instead, existing contracts were discussed. We also noted closed meetings in January 2009 and February 2010 for which legal issues were cited as the reason for closing the meeting, but instead, an existing contract was discussed. Discussion related to existing contracts is not an allowable topic for closed session.
- We identified closed meetings in April 2009 and January 2010 in which legal issues was cited as the reason for closing the meeting, but instead, a personnel issue was discussed.
- We identified a meeting in September 2009 which cited leases as the reason for closing the meeting, but real estate matters were discussed.

Section 610.020.7, RSMo, requires governmental bodies to prepare and maintain minutes of open and closed meetings. In addition, Section 610.022, RSMo, provides that the Board shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote, and limits the types of topics which can be discussed in closed meetings.

Recommendation

The Jackson County Sports Complex Authority ensure topics discussed during closed session meetings are allowable and the reasons for closing a meeting are documented in the open session minutes.

Auditee's Response

While both legal issues and personnel issues can arise from existing contracts, we agree we should stay on the topic for which we went into closed session and we will also ensure the topic is allowable. When a board member makes a motion to go into closed session, they are using their best judgment consistent with their understanding of the sunshine law.

2. Insurance Coverage

The authority should require documentation of the sports complex insurance coverage. In 2006, the authority entered into amended operating leases with the Chiefs and Royals thereby giving the teams the cost responsibility and risk for the long term repair, maintenance and operation of the stadiums. Article 17, Section 17.2 of the Chiefs' amended lease requires the Chiefs to provide liability insurance on Arrowhead Stadium. Section 28 of the Royals' amended lease requires the Royals to provide liability insurance on Kauffman Stadium. The leases do not require the teams to provide proof of insurance to the authority and the authority did not request proof during the audit period.



Jackson County Sports Complex Authority
Management Advisory Report - State Auditor's Findings

In addition, the authority is required under Article XVII, section 17.01 of the original lease agreements to provide casualty insurance as a condition of the lease. In addition, Article 17, Section 17.1 of the amended lease requires the casualty insurance to include coverage specifically for acts of terrorism. According to the Executive Director, the casualty insurance is provided by Jackson County on the authority's behalf, but the authority did not request documentation from the county that coverage was adequate to meet the terms of the lease.

The authority has a responsibility to ensure the stadiums, as public assets, are adequately insured at all times. Without obtaining adequate documentation and implementing proper monitoring procedures, the authority cannot determine the stadiums are adequately insured as required.

Recommendation

The Jackson County Sports Complex Authority obtain detailed summaries of the levels of insurance coverage.

Auditee's Response

We agree and will obtain summaries of the existing insurance coverage provided by others. The 2006 Lease Amendments actually provide that the "Landlord/County" will provide casualty insurance. (Kansas City Chiefs section 17.1) "Landlord/County" is defined in section 34.2 as referring to "a joint obligation or joint right of, or determination to be made by, or with respect to, both Landlord and the County, as the context indicates." The County has always provided the casualty insurance under the 2006 Lease Amendments.

3. Expenditures

Controls and procedures over Authority expenditures could be improved.

3.1 Supporting Documentation

Some payments were not supported by an invoice or other adequate documentation.

- A chartered flight was purchased for \$6,500. The payment voucher did not indicate who was on the flight or the purpose for the flight.
- The Executive Director received expense reimbursements totaling \$11,333 during the 3 years ended December 31, 2010. The expense reimbursement reports did not show the purpose and the destination for mileage reimbursements, making it difficult to determine the propriety and reasonableness of the expenses claimed. In addition, the Executive Director received reimbursement for the purchase of three gift cards totaling \$400. The expense report did not document the purpose or the recipients of the gift cards, nor was other documentation provided to indicate such information.



Jackson County Sports Complex Authority
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To ensure the validity and propriety of disbursements, adequate supporting documentation should be obtained for all goods and services. In addition, to ensure reimbursement requests are reasonable and represent valid disbursements, the authority should ensure documentation is adequately detailed.

3.2 Procurement of Professional Services

The authority does not always competitively bid professional service contracts, as required by state law. During the 3 years ended December 31, 2010, competitive bids were not solicited for legislative, accounting and audit, and legal services totaling approximately \$141,000, \$45,000, and \$304,000, respectively. The authority signs a new engagement letter for accounting and audit services on an annual basis and signs a new agreement for legislative services every 2 years. The engagement letter for legal services was last updated in April 2005. Rather than periodically soliciting bids for these services, the Executive Director indicated the authority has used the same providers for years and is pleased with the results and thus, did not solicit bids in recent years for these services.

Section 64.940.3 RSMo, states any expenditure made by the authority in excess of \$25,000, including professional service contracts, must be competitively bid.

Recommendations

The Jackson County Sports Complex Authority:

- 3.1 Ensure adequate supporting documentation is submitted and retained for all disbursements.
- 3.2 Ensure competitive bids are solicited periodically for professional services, in accordance with applicable state law.

Auditee's Response

- 3.1 *We agree with the recommendation and have already addressed the issue.*

The \$6500 payment was for a flight to Jefferson City to appear before the Missouri Development Finance Board (MDFB) to obtain the tax credits of \$25 million, \$15 million of which was used for Arrowhead Stadium, and \$10 million of which was used for facilities at Missouri Western University in St. Joseph, Missouri to allow the Kansas City Chiefs to return their annual summer camp to Missouri. The plane that had been chartered was about 1/10 of the price, but could not take off because that morning Kansas City was in the midst of one very heavy snowstorm and visibility was zero. The Authority had no choice but to book the only available plane for this important meeting. The passengers on the plane included the president of Missouri Western University, officials of the Kansas City Chiefs, a state senator, a member of the MDFB, the Executive



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Management Advisory Report - State Auditor's Findings

Director, and the General Counsel of the Authority. The Authority was reimbursed a portion of the cost by the Kansas City Chiefs.

The gift cards were purchased at the direction of a former Chairman of the Board as Christmas gifts for an employee and two catering people who work in the suite.

3.2 *Agree in principle. When the current law firm was retained by the Authority, we believe it is the first time that proposals were solicited for legal services. The existing audit firm has been doing the financial statements for the Authority for the past 15+ years. With the new leases in effect any changes to these firms would be very expensive at this time.*

4. Tickets and Suite Usage

Documentation of the use of the authority's suite at the Chiefs home football games and authority tickets for the Royals home baseball games is inadequate. The cost of providing food, beverages, and tickets to state and local public officials at Chiefs football games and Royals baseball games is not adequately tracked and the authority does not maintain a record of who uses the provided tickets at each game.

Section 105.473, RSMo, requires that all expenditures made by a lobbyist or lobbyist principals on behalf of state and local officials, their staff, or spouses and dependent children be reported monthly by the lobbyists to the Missouri Ethics Commission (MEC). The expenditures to be reported shall include the costs of food, beverages, and the face value of tickets provided to these individuals. Records supporting who used the tickets would allow the authority to ensure the value of the tickets, food, and beverages provided to public officials is properly reported.

For each Chiefs home game, the authority receives 46 tickets to the game at no cost to the authority and for each Royals game, each authority member receives 4 tickets. The authority members, staff, and invited guests, including government officials, watch the football games from the authority's suite at Arrowhead stadium overlooking the playing field. Food and beverages are provided at the Arrowhead suite at no cost to the authority by its registered lobbyist, as required in the contract. The authority does not have a suite at Kauffman Stadium, therefore, food and beverages are not provided for Royals games. The authority indicated its lobbyist is responsible for distribution of tickets and tracking expenditures provided to state and local officials at the games and reporting those amounts to the MEC. Between January 2008 and December 2010, the authority's lobbyist reported minimal expenditures of \$1,857 provided to public officials at Chiefs games and no amount was reported for use of Royals tickets by public officials. The Executive Director indicated neither the authority nor its lobbyist maintain a complete list of who used each ticket provided to the



Jackson County Sports Complex Authority
Management Advisory Report - State Auditor's Findings

authority, making them unable to document the amount of expenditures reported to the MEC was accurate.

Adequate records of all suite attendees and all ticket recipients are necessary to ensure the authority and its lobbyist have reported all expenditures provided to state and local officials, as required by state law.

Recommendation

The Jackson County Sports Complex Authority maintain records of all Arrowhead suite attendees and Royals ticket recipients to ensure the costs of any food, beverages, and tickets provided to state and local officials are reported to the MEC as required by state law.

Auditee's Response

The Authority already satisfies this recommendation. The governmental relations firm retained by the Authority dispenses all tickets to public officials and pays for all food and drink in the Arrowhead suite. The Executive Director and a member of the governmental relations firm are at every Chiefs home game to ensure compliance. The firm maintains a complete record of public officials which is filed with the Missouri Ethics Commission and is available online. No food or drink is furnished at Royals games. We do not believe law or policy requires the Commissioners to list the names of those guests of theirs who are not public officials.

Auditor's Comment

While the government relations firm retained by the authority does maintain records of public officials attending games in the authority's suite, the firm does not, nor does the authority, maintain a record of who uses all the tickets available, whether a public official or not. Only by maintaining a complete listing of all suite attendees and comparing that listing to the public officials usage information reported to the MEC, can the authority ensure all public officials usage is properly reported.

5. Board Supervision

To strengthen internal controls, the Authority's Board of Commissioners should provide better oversight of authority activities.

The Board employs an Executive Director to provide active supervision, control, and management of the day-to-day operations of the authority, which includes processing and approving expenditures and other financial related activities. The Board meets monthly to discuss authority business including personnel issues, contracted services, financial activity, and potential and upcoming maintenance and repair projects. The Board is provided summary financial information at each board meeting, including a listing of expenditures. However, supporting documentation for expenditures is not usually requested and there is no documentation the Board has provided any other type of supervision over the activities of the Executive Director.



Jackson County Sports Complex Authority
Management Advisory Report - State Auditor's Findings

The staff of the authority consists of the Executive Director and an Office Manager. The small staff size inhibits the ability to provide adequate segregation of duties. However, periodic reviews of supporting documentation of transactions by the Board or a designated member would help improve oversight. Without adequate oversight, the Board has less assurance that all assets are adequately safeguarded, and all transactions are accounted for properly, adequately supported, and for reasonable and appropriate uses.

Recommendation

The Jackson County Sports Complex Authority should establish procedures to improve the oversight of the operations of the authority. These procedures should include timely supervision and, at a minimum, a periodic review of supporting documentation of transactions and the work performed by the Executive Director.

Auditee's Response

While we agree that procedures can always be improved and we will certainly look for such opportunities, we believe the Board is fully aware of all expenditures and the Executive Director has documentation in the form of invoices and cancelled checks which are available upon request. Periodic review is done for certain invoices (legal expenses) by a Board member. The Board is also fully aware and receives detailed documents to support the bond disbursements each month well in advance of their actual disbursement. During the construction project, the Board received weekly e-mail updates and a detailed written monthly report.

Jackson County Sports Complex Authority

Organization and Statistical Information

The Jackson County Sports Complex Authority is a body corporate and politic and a political subdivision of the state of Missouri. The authority was created in 1965 under the authority of Section 64.920, RSMo, to oversee the construction of the Harry S. Truman Sports Complex, a dual stadium complex, which opened for football during the 1972 season and for baseball during the 1973 season.

The authority was assigned certain powers, duties, and obligations directed principally to plan, construct, operate, and maintain all things necessary to a complex suitable for all types of sports and recreation.

The authority is currently operating under 25-year amended lease agreements with the Kansas City Royals and Kansas City Chiefs which were entered into in January 2006. Each lease agreement calls for annual basic rents of \$450,000 paid by each team and percentage rentals based upon gross receipts, net of taxes, in excess of \$7,500,000.

The authority entered into management contracts with the teams, as part of the original 1990 leases, which provide for the authority to pay management fees to the Royals and Chiefs. Management fees of approximately \$2 million and \$1.9 million were paid to the Royals and Chiefs, respectively, during the year ended December 31, 2010. These fees are to compensate the teams for the costs to manage the daily operations of the stadiums, including utilities. The management fees currently increase each year with the Consumer Price Index, not to exceed 4.75 percent, during the remainder of the contracts.

In 2006, the authority amended the leases and entered into development agreements with the teams to renovate Arrowhead and Kauffman stadiums to bring them up to current National Football League and Major League Baseball standards. In 2006, Jackson County issued \$425 million of leasehold revenue bonds to fund a portion of the renovation projects. In addition, Jackson County voters approved a three-eighths cent sales tax which the county will use to pay the debt service costs on the 2006 bonds and to provide for ongoing repairs and maintenance of the common areas of the complex over the 25 year leases. The Missouri Development Finance Board contributed \$75 million in Tax Credits for Contributions for the renovation projects. The Royals contributed \$25 million and the Chiefs contributed \$125 million; with the teams responsible for any cost overruns from the renovation projects and ongoing stadium maintenance costs. The renovations to Kauffman Stadium were completed in April 2009 at a cost of \$271.8 million and the renovations to Arrowhead Stadium as of July 2011 totaled \$405 million.

In 1990, the voters of Jackson County approved the shift of an eight cent property tax levy to the county's Park Fund to help finance the obligations contained in the leases. Since that time, the county has allocated \$3.5



Jackson County Sports Complex Authority Organization and Statistical Information

million annually from this levy to support the obligations contained in the leases. In 1998 and 2002, the county issued \$40,170,000 and \$10,000,000, respectively, of leasehold revenue bonds in part to fund improvements at the sports complex. The 1998 bond proceeds were used for repairs, maintenance and improvement expenditures totaling \$34,100,000.

From 1991 to 1996, the Missouri General Assembly appropriated \$2 million annually for the maintenance of the sports complex pursuant to Sections 67.638 through 67.641, RSMo. The state funding increased to \$3 million annually beginning in 1997.

Each year, the authority enters into a cooperative agreement with the City of Kansas City, whereby the city agrees to appropriate \$2 million annually to partially fund the master plan projects and for other maintenance and repair expenses at the sports complex. However, the City of Kansas City only appropriated \$1.7 million in fiscal year 2009 and \$1.5 million in fiscal year 2010. Jackson County made up the deficiencies. The county, state, and city funds have been deposited into a Convention and Sports Complex Fund which was established pursuant to Section 61.641, RSMo, and the monies in this fund are used to maintain and operate the sports complex.

Authority Commissioners

The authority board is bipartisan and consists of five commissioners who are qualified voters of the state of Missouri and residents of Jackson County. The Jackson County legislature submits a list of candidates to the Governor to replace members of the Board whose terms have expired. The Governor then appoints, with the advice and consent of the Senate, the succeeding members from that list of candidates. The commissioners serve staggered terms of five years and hold office until a successor has been appointed and confirmed. Commission members receive a maximum salary of \$3,000 per year, plus reimbursement for actual expenses incurred in the performance of their duties. The Board elects its own officers. At December 31, 2010, the commissioners were:

Commissioner	Term Expires
J. Beto Lopez, Chairman	July 15, 2012
Gerald Winship, 1st Vice-Chairman	July 15, 2014
Jon R. Gray, 2nd Vice-Chairman	July 15, 2013
Deron Cherry, Treasurer (1)	July 15, 2011
Garry Kemp, Secretary (2)	July 15, 2015

(1) Deron Cherry was re-appointed to a 5 year term ending July 15, 2016

(2) Garry Kemp replaced Michael Smith as Secretary in October 2010

As of December 31, 2010, the authority employed an executive director and an office manager to provide various administrative and support functions. Jim Rowland has served as Executive Director for the authority since 2006.



Jackson County Sports Complex Authority
Organization and Statistical Information

The Executive Director's salary for the year ended December 31, 2010, was \$120,000.

Copies of the authority's financial statements can be obtained from the authority.

American Recovery and
Reinvestment Act 2009
(Federal Stimulus)

The Jackson County Sports Complex Authority did not receive any federal stimulus monies during the 3 years ended December 31, 2010.