



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report – Issued February 16, 2021

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## Massachusetts Convention Center Authority

For the period July 1, 2017 through June 30, 2019





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Suzanne M. Bump

*Making government work better*

February 16, 2021

Mr. David M. Gibbons, Executive Director  
Massachusetts Convention Center Authority  
415 Summer Street  
Boston, MA 02210

Dear Mr. Gibbons:

I am pleased to provide this performance audit of the Massachusetts Convention Center Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2017 through June 30, 2019. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Massachusetts Convention Center Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular background.

Suzanne M. Bump  
Auditor of the Commonwealth

cc: John McDonnell, Chair of the Massachusetts Convention Center Authority Board of Directors

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## LIST OF ABBREVIATIONS

BCEC	Boston Convention and Exhibition Center
CCF	Massachusetts Convention Center Fund
FMS	Financial Management System
KPI	key performance indicator
MMC	MassMutual Center
MSA	management services agreement
OSA	Office of the State Auditor
SOC	Service Organization Control
SVM	Spectra Venue Management

## EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Massachusetts Convention Center Authority for the period July 1, 2017 through June 30, 2019. Our preliminary audit topic was to determine whether the Authority properly oversaw its facilities to ensure long-term financial stability. After a risk analysis, we narrowed our topic to focus on the financial stability of the MassMutual Center (MMC) in Springfield. We conducted this performance audit to determine whether the Authority effectively administered its management services agreement with MGM Springfield to operate the MMC to ensure its financial stability.

Below is a summary of our findings and recommendations, with links to each page listed.

<b>Finding 1</b> <b>Page <a href="#">11</a></b>	The Authority did not detect several deficiencies in the MMC's billing and settlement records.
<b>Recommendations</b> <b>Page <a href="#">13</a></b>	<ol style="list-style-type: none"><li>1. The Authority and MGM Springfield should complete and implement financial policies and procedures to oversee billing and settlement of events at the MMC.</li><li>2. The Authority should monitor the settlement and billing process to ensure compliance with these guidelines.</li></ol>
<b>Finding 2</b> <b>Page <a href="#">14</a></b>	The Authority did not receive required facility maintenance information from MGM Springfield.
<b>Recommendations</b> <b>Page <a href="#">15</a></b>	<ol style="list-style-type: none"><li>1. The Authority should ensure that its contract administrator and MGM Springfield are aware of the contractual requirement that MGM Springfield provide the Authority with facility maintenance information.</li><li>2. The Authority should establish monitoring controls to ensure that MGM Springfield provides it with all contractually required facility maintenance reports.</li></ol>
<b>Finding 3</b> <b>Page <a href="#">17</a></b>	The Authority did not document its assessment of MGM Springfield's performance before renewing its contract.
<b>Recommendations</b> <b>Page <a href="#">17</a></b>	<ol style="list-style-type: none"><li>1. The Authority should ensure that MGM Springfield is aware of and fulfills all its responsibilities as detailed in the contract.</li><li>2. The Authority should establish monitoring controls over the MMC contract to ensure that the contract administrator documents the required assessments in accordance with Authority policy.</li></ol>

## OVERVIEW OF AUDITED ENTITY

The Massachusetts Convention Center Authority is an independent public authority of the Commonwealth that owns and operates several public facilities primarily for conventions, tradeshow, and industry meetings. The Authority was established by Section 31 of Chapter 190 of the Acts of 1982 and Chapter 152 of the Acts of 1997 to acquire and operate the John B. Hynes Veterans Memorial Convention Center and the Boston Common Parking Garage, to oversee the construction and operation of the Boston Convention and Exhibition Center (BCEC), and to acquire and operate the Springfield Civic Center. According to its website,

*The [Authority's] mission is to generate significant regional economic activity by attracting conventions, tradeshow, and other events to its world-class facilities while maximizing the investment return for the residents and businesses in the Commonwealth of Massachusetts.*

The Authority is governed by a 13-member board of directors. Nine members are appointed by the Governor, 2 members are appointed by the Mayor of Boston, and 2 (ex officio) members are the Secretary of Administration and Finance and the Collector-Treasurer of the City of Boston or their designees. The Authority's board is responsible for appointing an executive director to serve as the Authority's chief executive officer.

During our audit period, the Authority was responsible for the operation of the following facilities.

### **John B. Hynes Veterans Memorial Convention Center**

The John B. Hynes Veterans Memorial Convention Center, located at 900 Boylston Street in Boston, was acquired by the Authority from the Commonwealth under Chapter 190 of the Acts of 1982. The Authority remodeled and expanded the former Hynes Auditorium building, creating the John B. Hynes Veterans Memorial Convention Center, which reopened for business in 1988. The center consists of 176,480 square feet of exhibition space, including the Hynes Auditorium, which has seating for more than 4,000 people. The center generates event-related revenue primarily from the rental of meeting and exhibition space.

### **The Boston Common Parking Garage**

The Authority acquired the Boston Common Parking Garage from the Commonwealth under Chapter 190 of the Acts of 1982. This underground public parking garage is in the Back Bay / Beacon

Hill neighborhood of Boston, beneath the Boston Common, and holds 1,350 vehicles. It provides parking for commuters, nearby residents, and tourists. It generates revenue almost exclusively from parking fees.

## **BCEC**

Chapter 152 of the Acts of 1997 authorized the design and construction of the BCEC. The BCEC, located in South Boston, officially opened for business in summer 2004. It is approximately 2.1 million square feet and is located on a 60-acre site. The BCEC generates event-related revenue primarily from the rental of meeting and exhibition space, the sale of services that support the use of that space, and commissions on food and beverage sales at the facility.

## **MassMutual Center**

Under Chapter 152 of the Acts of 1997, the Authority obtained ownership and control of the Springfield Civic Center, located in Springfield, from the Commonwealth. The Legislature authorized funding for the Authority to expand and renovate the facility. In September 2003, the Authority entered into an agreement with the Massachusetts Mutual Life Insurance Company for the naming rights to the Springfield Civic Center. In consideration for a payment of \$5 million, the Springfield Civic Center was designated the MassMutual Center (MMC).

The MMC opened for business in fall 2005. It contains 100,000 square feet of space, including a ballroom, five meeting rooms, a 40,000-square-foot exhibit space, and a renovated 8,000-seat arena. The MMC generates both arena revenue (e.g., revenue from hockey and basketball games) and convention event revenue.

## **MMC Management**

On September 1, 2016, the Authority entered into a three-year management services agreement (MSA) with Global Spectrum Limited Partnership of Philadelphia, doing business as Spectra Venue Management (SVM), and Blue Tarp reDevelopment Limited Liability Company, doing business as MGM Springfield, to manage the MMC. The MSA's original term ended on June 30, 2019, but it allows the Authority, at its discretion, to execute two separate one-year extensions.

On June 26, 2017, the Authority and SVM executed an assignment agreement whereby the MSA was fully assigned to MGM Springfield effective July 1, 2017.

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The terms and conditions of the assignment agreement require MGM Springfield to manage all aspects of the MMC's operations in accordance with the MSA, including the following:

- acting as the Authority's agent in conducting financial transactions and entering into contracts for the use of the MMC
- developing sales and marketing strategies for the MMC
- providing all management services, systems, and materials required to operate, supervise, and maintain the MMC
- establishing and adjusting prices and rates for catering, concessions, occupancy, advertising, user, and license agreements and for booking commitments
- acting as the Authority's agent to execute, administer, and ensure compliance with service contracts with respect to the MMC, including contracts for ticketing; Web development and maintenance; computer support; furniture, fixture, and equipment purchasing; engineering services; fuel; maintenance; staffing of personnel, including guards and ushers; extermination; and other services
- managing and overseeing food and beverage services, related contracts with vendors, concession and merchandise agreements, rental agreements, booking commitments, licenses, and all other event-related contracts or agreements
- maintaining the MMC, including equipment, security, and any improvements, in a manner that is consistent with similar facilities and general accepted standards in the convention center industry
- expeditiously collecting, and depositing in the MassMutual operating account, all revenue and other receipts generated from events and other business activities
- preparing an annual operating budget estimating gross monthly and yearly revenue and expenses, subject to the Authority's review and approval.

MGM Springfield manages all of the MMC's operations and personnel, including the hiring of employees, agents, and independent contractors. MGM Springfield had 39 full-time and 152 part-time employees to manage MMC operations as of the end of the audit period. All MMC operating expenses are paid from operating revenue generated by the MMC and by subsidies from the Massachusetts Convention Center Fund (CCF).

## **Authority Financial Information**

Section 10 of Chapter 152 of the Acts of 1997 created the CCF to provide funding for the Authority's debt payments. The CCF is funded through hotel tax receipts from certain hotels in Boston, Cambridge,



Springfield, and Worcester; a surcharge on vehicle rentals; a parking surcharge; a surcharge on sightseeing tours and cruises in Boston; and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge, and Springfield.

Section 439 of Chapter 26 of the Acts of 2003 expanded the use of CCF funds to include the payment for the net cost of operations and the cost of long-term capital maintenance. It also established a \$17 million cap on the amount of funds used to cover the Authority's operational costs. In 2004, the annual cap was raised to \$23 million. Chapter 195 of the Acts of 2014 increased the annual caps for fiscal years 2016, 2017, and 2018 to \$25 million, \$26 million, and \$28 million, respectively. (The annual authorization for fiscal year 2019 stayed at \$28 million.) In addition, the State Treasurer and the Secretary of Administration and Finance must annually certify the sufficiency of CCF revenue for any given year. CCF revenue cannot be used until the certification takes place. In 2018, the Authority requested \$24,746,206 in reimbursement from the CCF: \$14,158,769 for the costs of operations and \$10,587,437 for capital costs. In 2019, the Authority requested \$40,381,098 in reimbursement from the CCF: \$17,544,945 for the costs of operations and \$22,836,153 for capital costs. The balance in the CCF was \$196,270,258 as of June 30, 2018 and \$268,854,729 as of June 30, 2019.

The Authority's management uses the coverage ratio, an industry standard performance metric, to measure the extent to which its gross operating revenue covers its operating expenses. For example, a coverage ratio of 50% indicates that 50% of the expenses of operating a particular facility are paid for by the revenue generated by the facility, and the remaining 50% needs to be covered by the CCF. The Authority's overall coverage ratio for fiscal years 2018 and 2019 was 90%. The table below compares each facility's coverage ratios for fiscal years 2018 and 2019. During this period, the MMC's coverage ratio was significantly lower than those of the Authority's other facilities.

### Coverage Ratio Comparison by Facility

	Coverage Ratio Fiscal Year 2018	Coverage Ratio Fiscal Year 2019
BCEC	106%	115%
John B. Hynes Veterans Memorial Convention Center	94%	106%
MMC	48%	53%
Boston Common Parking Garage	425%	516%

## **MMC Events**

MGM Springfield classifies events held at the MMC as convention center rentals, entertainment events, hockey games, or community events.

### **Convention Center Rentals**

Convention center rentals include events like tradeshow, college and high school graduations, and conferences. The contracts for these events require the organization that is promoting the event to provide a pre-event deposit in an amount that can be up to the full estimated cost of the event. The MMC event manager organizes all internal and external resources necessary to host the event, including staffing, food and beverage services, and building preparation. It sometimes uses vendors for services including staging, ushering, and security.

### **Entertainment Events**

Entertainment events include things like concerts, ice shows, athletic (non-hockey) events, and exhibitions. In addition to a building rental fee for these events, MGM Springfield negotiates the sharing of non-rent revenue such as tickets, facility and service fees, and food and beverage revenue. Entertainment events are structured by MGM Springfield as either co-promotions or direct buys. Co-promotions are events where the Authority partners with a promoter to produce an event and shares the net profit or loss. Direct buys are events where the Authority is the sole promoter and accepts all profits or losses from the event. The MGM Springfield general manager is required to produce profitability forecasts for every proposed co-promotion and direct buy and submit it to Authority management for review before putting it under contract. Each event also requires a license agreement that includes the promoter obtaining a \$3,000,000 insurance policy to protect the Authority from casualty claims for any injuries or other casualties related to the event.

### **Hockey Games**

The MMC is the home arena for the American Hockey League's Springfield Thunderbirds and American International College's hockey team. Hockey games are governed by a contract between the Authority and the teams for all games played by the Springfield Thunderbirds and American International College at the MMC throughout the season.

## **Community Events**

Community events are events hosted by the MMC to benefit the general public, such as holiday-themed events and exhibitions. There are no contracts associated with these events. MMC personnel (MGM Springfield employees) form a committee to plan and manage events, and admission is free. The MMC general manager is responsible for approving all expenditures.

## **Billing and Event Settlement Process**

For all events, the MMC's staff uses a standard billing and event settlement process. This process requires circulating an event folder to each MMC manager involved in the event. The event folder contains all the documentation for the event, including an invoice approval form that is used to generate a final bill for the promoter or client. The folder also includes all vendor invoices for expenses related to the event. Each MMC manager involved in the event is supposed to review the documentation in the folder, verify the accuracy of information (e.g., the billable hours for a particular vendor), and sign off on the invoice approval form. All events have payment terms that are expressly stated in their contracts.

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## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Massachusetts Convention Center Authority for the period July 1, 2017 through June 30, 2019.

We conducted this performance audit 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.

Below is our audit objective, indicating the question we intended our audit to answer, the conclusion we reached regarding the objective, and where the objective is discussed in the audit findings.

Objective	Conclusion
1. Did the Authority effectively administer its management services agreement with MGM Springfield to operate the MassMutual Center (MMC) in accordance with the agreement's terms and the Authority's "Procurement Guidelines: Goods and Services"?	No; see Findings <u>1</u> , <u>2</u> , and <u>3</u>

In addition to our findings, we identified an issue we believe warrants the Authority's attention, which we have disclosed in the "Other Matters" section of this report.

To achieve our objectives, we gained an understanding of the internal controls we deemed significant to our audit objectives through inquiries with Authority and MMC personnel and observations of various activities related to the MMC's administration and operation. We evaluated the design and effectiveness of controls over arena and convention event income, box office sales, food and beverage revenue, and operating expenses, and we assessed whether these controls operated as intended during the audit period.

We performed the following procedures to obtain sufficient, appropriate audit evidence to address the audit objectives.

We obtained a list of all 371 events that were held at the MMC during the audit period from the Authority's Financial Management System (FMS).<sup>1</sup>

Using a nonstatistical judgmental sampling method, we selected all 8 direct buys or co-promotions at the MMC from the population of 371 events and also selected 25 rental events from the remaining 363 events, based on event type, size, and profitability, for review. From this sample of 33 events, we performed the following procedures:

- We inspected each event file for completeness according to documentation requirements established by MMC management, including event contracts or license agreements, event cost estimates, third-party invoices for goods and services, proof of client advance payments when required by contract, client invoices, and invoice approval forms.
- We recalculated event settlements or final billings to clients by applying the terms of the event contracts or license agreements to the information in the event files.
- We reviewed the contract between the Authority and MGM Springfield. We compiled a list of contract deliverables; traced each deliverable to supporting documents such as operating procedure manuals, maintenance and warranty schedules, operating budgets, and management reports; and inspected the supporting documents for compliance with the terms of the contract.
- We reviewed the contract renewal process to determine whether the Authority reviewed and documented MGM Springfield's performance under the contract before renewal.

Because we used a nonstatistical approach to our audit sample, we did not project our results to the entire population.

## **Data Reliability**

### **Blackline Accounting System**

We obtained and reviewed the fiscal year 2018 and 2019 Service Organization Control (SOC)<sup>2</sup> reports for Blackline Software.<sup>3</sup> We confirmed that tests of certain information system general controls (access controls, application controls, configuration management, contingency planning, and segregation of duties) were performed during these SOC reviews and there were no exceptions. As a result, we were able to rely upon the data obtained from the Blackline accounting system for the audit period for the purposes of our audit work.

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1. FMS was developed by the Authority's Information Technology Department and was in use throughout the audit period.  
2. SOC reports are attestation reports that provide third-party assurance that best practices have been incorporated into the service delivery processes and controls for a product. They must be issued by certified public accountants.  
3. Blackline Software is the developer of the accounting software used by MGM Springfield and the Authority to consolidate financial activity from MGM Springfield's general ledger and the Authority's general ledger.

## **FMS**

We reconciled the Blackline accounting system's monthly totals for revenue and expenses to FMS and its audited financial statements. From 20 monthly income statements, we selected 10 revenue and expense line items and traced them to journal entries. In addition, we traced 10 items from the MMC's check register to journal entries and found no exceptions. As a result, we were able to rely on the data obtained from FMS for our audit period for the purposes of our audit work.

## **DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE**

### **1. The Massachusetts Convention Center Authority did not detect several deficiencies in the MassMutual Center's billing and settlement records.**

Numerous deficiencies in billing and settlement records went undetected by the Authority. As a result of these problems, the Authority cannot be certain that MGM Springfield is properly accounting for all event revenue and expenditures.

We reviewed a random sample of 33 event folders, containing the billing and settlement records for 16 convention center rentals, 11 entertainment events, 4 hockey games, and 2 community events, and found the following problems.

#### **Convention Center Rentals**

- Eight of the 16 events had at least one advance payment made after the contract due dates (though before the events). The numbers of days late ranged from 3 to 214. The dollar amounts ranged from \$500 to \$13,200.
- Three of the 16 events had advance payments received after the contract due dates and after the events. The numbers of days late ranged from 5 to 81. The dollar amounts ranged from \$13,500 to \$25,400.
- Nine of the 16 events had discrepancies between the billable hours submitted by the staging vendor on MassMutual Center (MMC) manual time logs to the event manager and the billable hours later invoiced by the staging company.
- Fourteen of the 16 event folders were missing documents such as event contracts, event cost estimates, third-party invoices, advance deposit invoices and proof of payment, and invoice approval forms.
- For 12 of the 16 events, invoice approval forms were not properly completed and/or approved.

#### **Entertainment Events**

- Five of the 11 event folders were missing documents required for billing, such as event contracts and license agreements, third-party invoices, and invoice approval forms.
- Ten of the 11 invoice approval forms were not properly completed and/or approved.
- Two of the 11 events were not insured sufficiently: one was uninsured, and one was underinsured by \$1,000,000.

## Hockey Events

- None of the four invoice approval forms was properly completed and approved.
- Two of the four hockey events had discrepancies between the billable hours submitted by the staging vendor to the MMC event manager and those invoiced by the staging vendor and paid by MGM Springfield.
- Final payments for two of the four hockey events were made late (i.e., more than 15 days after the invoice date). A \$10,375 payment was 36 days late, and an \$8,931 payment was 228 days late.

## Authoritative Guidance

Section 16.2.3 of the management services agreement (MSA) between the Authority and MGM Springfield for MGM Springfield to manage the MMC states that the Authority's contract administrator "shall be responsible for the monitoring and assessment of the quality of services provided by the Manager [MGM Springfield] and contract compliance by the Manager."

Section 2.2.2 requires MGM Springfield to do the following:

*Use the previously approved . . . user/rental agreements and license agreements. Manager shall not materially deviate from the terms contained in such forms without obtaining the prior approval of the Authority.*

The approved agreements include requirements for timely receipt of deposits and rental fees.

Section 2.2.9 requires MGM Springfield to ensure the following:

*That all material vendors and licensees of the Facility execute vendor/license agreements containing standard indemnification and insurance obligations on the part of each such vendor/licensee.*

Finally, Section 2.2.15 requires MGM Springfield to "maintain detailed, accurate and complete financial and other records of all its activities."

## Reasons for Issue

At the beginning of the audit period, MGM Springfield fully assumed the responsibility of managing the MMC from Spectra Venue Management. This transition resulted in turnover in several positions that were responsible for billing and settlement activities. In addition, the Authority did not ensure that MGM Springfield had financial policies and procedures to clearly articulate day-to-day event billing and



settlement requirements for MMC events. Therefore, the Authority could not monitor the quality of services provided by MGM Springfield consistently throughout the audit period.

## Recommendations

1. The Authority and MGM Springfield should complete and implement financial policies and procedures to oversee billing and settlement of events at the MMC.
2. The Authority should monitor the settlement and billing process to ensure compliance with these guidelines.

## Auditee's Response

*The Authority and MGM Springfield have taken several significant steps to improve financial activities and procedures at the MassMutual Center and these efforts were already underway during the audit period. These improvements included changes related to MGM Springfield organization chart and staffing plan for the MassMutual Center as well as updating and revising the MassMutual Center's manual for financial reporting and controls. The Authority previously provided the auditor team with evidence of these efforts which demonstrate the Authority had already been implementing steps that are now recommended in this report. The Authority takes the suggestions noted in this audit very seriously, and it is important to note that there has been no material loss to the Authority.*

*Itemized below are policies and procedures that have been implemented and demonstrate the improvement in MGM Springfield's reporting and controls over the audit period:*

- *MassMutual Center Management Manual: October 2018 version and updated June 2019 version with change in organizational structure to better staff and provide the adequate oversight/controls by MGM Springfield at the MassMutual Center.*
- *"Procedure for Invoicing & Collection of Event Advanced Deposits & Final Payment" to streamline the event billing process and ensure adequate backup documentation is included in all event folders. This procedure will mitigate delays in advance payments collections and ensure accuracy with contracted timelines and amounts.*
- *"Event Invoice Approval" form and "Procedure for Event Folder Completeness" to ensure all necessary documentation is included in event folders as well as all reviews/signatures by department heads are obtained. Final review is done by the MGM Springfield's General Manager and Finance Manager to confirm all requirements have been met.*
- *Weekly Update: Additionally, in August of 2019 a copy of all weekly updates that MGM Springfield sends to the Authority was provided to the State Audit team. These weekly updates include a Finance section which details the new policies and procedures that were being implemented and their progress during the audit period. Examples directly from the weekly reports include such activities as:*
  - *"Created revenue/cost reconciliation for third party services billed to clients"*

- *"Updated event advanced deposit tracking sheet and sent out all deposit invoices for upcoming events"*
- *"Creating standardized workflow for monitoring and communicating open purchase orders/accruals with management"*

### **Auditor's Reply**

The Office of the State Auditor (OSA) acknowledges that during the audit, Authority officials told us that they were taking steps to improve financial activities and procedures at the MMC. However, as noted above, during our audit period, the Authority's and MGM Springfield's controls over the financial activities we reviewed were deficient, and they resulted in the deficiencies in billing and settlement records that we identified and disclosed in this report. OSA acknowledges that the transaction amounts in question may not be material in terms of the total dollar amount of the transactions MGM Springfield processed during the audit period. However, the numerous exceptions we identified indicate significant control deficiencies that could result in material billing errors and other errors occurring and going undetected. It is important that such deficiencies be identified and corrected in a timely manner.

Based on its response, the Authority has taken measures to address our concerns in this area.

### **2. The Authority did not receive required facility maintenance information from MGM Springfield.**

The Authority did not ensure that it received all maintenance reports that MGM Springfield was required to provide under the MSA. During the audit period, the Authority did not request or receive any annual schedules of maintenance contracts and warranties or quarterly facility maintenance reports and schedules. Without the required annual and quarterly reporting, the Authority cannot effectively monitor scheduled preventive maintenance and warranties.

Beginning in December 2018, MGM Springfield began providing weekly reports to the Authority that the Authority believes contain sufficient information to comply with the MSA. They detail each week's administrative, financial, and operating activities. The section regarding operations includes details of the maintenance activities performed by MGM Springfield to ensure that the MMC is maintained "in the condition received," as required by the MSA. However, the reports do not constitute the required annual and quarterly reporting.

## Authoritative Guidance

Section 16.2.3 of the MSA states that the Authority's contract administrator "shall be responsible for the monitoring and assessment of the quality of services provided by the Manager [MGM Springfield] and contract compliance by the Manager."

Section 2.2.12 requires MGM Springfield to provide the Authority with an annual schedule of maintenance contracts and warranties, quarterly reports of all facility maintenance performed during the preceding quarter, and reports of all facility maintenance scheduled for the following quarter, including "a list of breakdowns of all major pieces of installed and portable equipment for the quarter."

## Reasons for Issue

The Authority does not confirm that its contract administrator is familiar with and aware of all aspects of the contract, including all maintenance information. The Authority also has not established monitoring controls to ensure that it receives information required by its contract with MGM Springfield.

## Recommendations

1. The Authority should ensure that its contract administrator and MGM Springfield are aware of the contractual requirement that MGM Springfield provide the Authority with facility maintenance information.
2. The Authority should establish monitoring controls to ensure that MGM Springfield provides it with all contractually required facility maintenance reports.

## Auditee's Response

*The Authority asserts that the communication it has received from MGM Springfield is above and beyond contractual requirements and, as of October 27, 2020, a Quarterly and Annual reporting process has been implemented as suggested in Finding 2.*

*The Authority's management team is in constant contact with MGM Springfield and receives detailed communication such as two weekly status calls and end of week activity reports, which have served to provide the Authority with helpful and timely information surrounding care and maintenance of the MassMutual Center. The Authority has provided the State Audit Team examples of this consistent coordination which satisfy contract requirements. This information provides critical updates on MassMutual Center maintenance, operations and activities across a wide array of disciplines including participation by the following Authority departments: Sales, Finance, Operations, Capital Projects, Public Safety, and Engineering & Maintenance.*

*The MGM Springfield staff provides an update of maintenance at the facility to the Authority on a weekly basis within the "Weekly Update" communications. These communications began being*

*submitted to the Authority in December of 2018. This communication, in addition to weekly calls between the MGM Springfield and the Authority's departments noted above, allowed for operations and maintenance information in excess of what was required according to contractual requirements. Maintenance updates are also included within the "MassMutual Center Board Report" submitted on a monthly basis to the Authority and provided to Board members.*

*The Authority is committed to the important public investments, including the MassMutual Center, under its custody. The Authority takes great pride in the physical condition and appearance of the MassMutual Center and how it reflects on the broader City of Springfield and the Pioneer Valley region of Western Massachusetts. Over just the past three fiscal years alone, the Authority has invested in numerous capital projects at the facility and employs or contracts for routine and emergency maintenance across all major building systems. Furthermore, the Executive Director, Deputy Director, Chief of Operations and Capital Projects and other key senior management personnel of the Authority have participated in detailed physical inspections of the MassMutual Center.*

### **Auditor's Reply**

As noted above, Section 2.2.12 of the MSA requires MGM Springfield to provide the Authority with an annual schedule of maintenance contracts and warranties, quarterly reports of all facility maintenance performed during the preceding quarter, and reports of all facility maintenance scheduled for the following quarter, including "a list of breakdowns of all major pieces of installed and portable equipment for the quarter." During our audit, we were not provided with any documentation to substantiate that MGM Springfield provided this information to the Authority in the manner prescribed by the contract; this fact is not disputed by the Authority.

In its response, the Authority asserts that although it did not receive the formal reports prescribed by the contract, "the communication it has received from MGM Springfield is above and beyond contractual requirements." The Authority states,

*[The Authority receives] two weekly status calls and end of week activity reports, which have served to provide the Authority with helpful and timely information surrounding care and maintenance of the MassMutual Center.*

Although the Authority provided us with weekly activity reports noting all maintenance performed during the week, there was no documentation detailing the substance of the two weekly calls. Therefore, OSA cannot comment on the adequacy of this communication to meet the requirements of the MSA.

In his book *Improving Convention Center Management Using Business Analytics and Key Performance Indicators: Focusing on Fundamentals*, Myles T. McGrane notes that it is an industry best practice to provide a schedule of maintenance contracts and warranties and provide quarterly facility maintenance schedules that track performance for the current and prior quarters. Although MGM Springfield's weekly updates include a "Facility Maintenance" section, they do not provide the Authority with the maintenance tracking information that may be necessary to ensure that all critical building maintenance is performed to prevent the consequences of building and system failures.

We commend the Authority for implementing the required quarterly and annual reporting in October 2020. This will provide further assurance that the facility is maintained "in the condition received, reasonable wear and tear excepted," as required by the MSA.

### **3. The Authority did not document its assessment of MGM Springfield's performance before renewing its contract.**

The Authority could not provide a documented performance assessment of the costs and benefits of extending its two one-year extensions of the MSA. Without documented assessment of the quality of the work, the Authority lacked the information necessary to determine whether extending the MSA was the best option.

#### **Authoritative Guidance**

According to its "Procurement Guidelines: Goods and Services," the Authority "has elected to follow, Chapter 30B . . . of the Massachusetts General Laws." Chapter 30B requires an assessment of the costs and benefits of exercising a contract renewal, extension, or purchase option and documentation of the findings in writing before exercising these options.

#### **Reasons for Issue**

During our audit, an Authority official stated that the Authority was not aware of the requirement to document an assessment of MGM Springfield's performance. The Authority has not established monitoring controls to ensure that the required performance assessments are conducted.

#### **Recommendations**

1. The Authority should ensure that MGM Springfield is aware of and fulfills all its responsibilities as detailed in the contract.

2. The Authority should establish monitoring controls over the MMC contract to ensure that the contract administrator documents the required assessments in accordance with Authority policy.

## Auditee's Response

*As noted in previous state audits (e.g., 1999, 2003), while the Authority is not subject to the requirements of Chapter 30B, based on its enabling statute, it has elected to follow them voluntarily and generally as a matter of best practice. In the case of the extension of the MGM Springfield management contract, the Authority did not prepare a report attesting to the advantageous nature of the agreement. However, there were numerous considerations, including the costs and benefits of the existing agreement with MGM Springfield, that justified the Authority's decision to extend the MGM Springfield agreement (per the Authority's published Request For Proposal for Management Services and subsequent Authority board vote authorization).*

*These financial and cost benefit factors that warranted such renewals included:*

- *Management Fee Waiver: Under the management agreement with MGM Springfield, the latter has agreed to waive annual management fees and related incentives. Compared to the previous management agreement, this saved the Authority \$250,000 annually. Based on Authority experience and industry practice, it does not believe that any alternative management vendor team would be agreeable to matching these financial terms.*
- *Initial Capital Investment: Pursuant to the current agreement, the management team (Spectra and MGM) made a \$200,000 up front investment in upgrades to the Mass Mutual Center's food and beverage equipment and installations. Since the investment was amortized over five years, the election to not extend the agreement would require the Authority to compensate Spectra for the remaining portion of the investment (\$80,000) that had not been fully amortized.*
- *Improved Venue Management: Another key consideration was the overall general improvement that the Authority realized in the management of the MassMutual Center as a direct result of a revised and stabilized organization chart and staffing plan, as well as several key vacancies being filled during the audit period.*
- *Financial Performance: Furthermore, as noted in this report above, the financial performance of the MassMutual Center, as demonstrated by the building's operating coverage ratio, had shown considerable improvement, crossing the 50% mark for the first time in recent history.*
- *Arena Entertainment: It should also be noted that the MassMutual Center, under MGM Springfield, had hosted or was scheduled to host no less than ten premiere live entertainment events since summer 2018, at levels of notoriety and customer interest not witnessed in the market in decades. These events were secured by MGM Springfield, in agreement with larger commitments that it had made as part of its resort gaming license to the Massachusetts Gaming Commission and the City of Springfield, as it ramped up efforts to promote the City of Springfield and its venues as a live entertainment destination. Such activity increased the economic activity to Springfield and the Pioneer Valley region of Western Massachusetts by increasing hotel room nights, restaurant and meals tax, retail spending and employment.*

- *Re-Procurement: Equally important to the Authority was the practical challenges of re-procuring the venue management services. The Authority's Board of Directors authorized the Executive Director to enter into an agreement for a "not to exceed period of five years" in duration, without further board approval required, in part due to the disruptive potential presented by selecting a new management team after only three years, including turnover in key positions, a limited market of potential competitive bidders, and the associated start-up costs as well as the long transitional period that the Authority would likely bear with a new vendor.*

*These factors were deliberated by senior [Authority] management, which concluded that it was highly advantageous for the Authority to extend the MGM Springfield management agreement, pursuant to the Authority's Board of Directors' authorization. The Authority does not agree that the absence of a "written report" required under rules it voluntarily elects to follow means that it lacked the necessary information to assess MGM Springfield's performance.*

### **Auditor's Reply**

As noted above, Chapter 30B requires a performance assessment of the costs and benefits of exercising a contract renewal, extension, or purchase option and documentation of the findings in writing before exercising these options. Although we acknowledge that the Authority is not required to adhere to Chapter 30B, it has, through its own policies, elected to do so; therefore, it must adhere to all of the requirements of the statute, including performing and documenting a performance assessment of its contractors before renewing or extending their contracts. During our audit, we requested from the Authority a copy of the written evaluation of MGM Springfield from before its contract was extended. We were told it was the Authority's informal practice to conduct performance assessments only for new procurements, not for contract renewals or extensions.

In its response, the Authority describes numerous factors that management had considered in deciding whether to extend this contract. The Authority further states that these considerations were deliberated on by senior management, "which concluded that it was highly advantageous" to extend this agreement. Although such deliberations may have occurred, we were not made aware of them during our audit and have not been provided with any documentation to substantiate when they occurred, what was discussed, or what was the basis of the Authority's management decision to extend the contract. The process the Authority said it used to evaluate MGM Springfield's performance and decide to extend the MSA may have been effective in helping senior management make an informed decision about the MSA; however, the Authority did not document a written assessment as required by Chapter 30B, so we could not determine whether the decision was reasonable.

We again urge the Authority to perform written assessments of all contracts before renewal or extension to provide evidence that a fair and equitable procurement process has been used.



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## OTHER MATTERS

### **The Massachusetts Convention Center Authority's contract with MGM Springfield lacks key performance indicators.**

According to the management services agreement (MSA), the following is expected of MGM Springfield:

*To ensure that [the MassMutual Center, or MMC] will continue to operate as an active multipurpose facility, and to operate and to competitively market its convention, meeting and ballroom space in a first class manner as well as to increase revenues, decrease expenditures and in general to maximize the utilization of the Facility by and for the benefit of the public.*

In our opinion, to better facilitate MGM Springfield meeting these expectations, the Authority should have included in the MSA specific key performance indicators (KPIs) or metrics that would be used to determine to what extent established expectations were achieved. Executing performance-based service contracts, which are those that include KPIs, is one contracting practice that has been shown to be effective in improving contractor performance and lowering costs. Performance-based contracts allow a contracting agency to specify desired outcomes and decide how best to achieve them. According to the International Association of Venue Managers<sup>4</sup> document *Convention Center Performance Reporting Framework: An IAVM Handbook for Convention Centers*,

*Productivity Metrics are the most valuable metrics available to the venue operator for determining venue performance. They compare the output (Performance Measurements) of the venue with the inputs (Activity, resources, expenses, etc.) necessary to produce those outputs. Productivity metrics will commonly be expressed as percentages or ratios.*

By establishing specific KPIs, the Authority could more effectively administer the contract to manage the MMC, drive and evaluate MGM Springfield's performance, and hold MGM Springfield accountable for nonperformance or underperformance. We believe the Authority should consider including specific KPIs in its contract for the operation of the MMC.

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4. This association is an international organization of venue management professionals that provides leadership, education, advocacy, and networking opportunities to its members.