OLA **OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Metropolitan Sports Facilities Commission

Financial Statement Audit

Year Ended December 31, 2008

July 30, 2009 **Report 09-25**

FINANCIAL AUDIT DIVISION
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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

July 30, 2009

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Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Roy Terwilliger, Chair
Metropolitan Sports Facilities Commission

Members of the Metropolitan Sports Facilities Commission

Mr. William Lester, Executive Director
Metropolitan Sports Facilities Commission

This report represents the results of our audit of the Metropolitan Sports Facilities Commission's (commission) basic financial statements for the year ended December 31, 2008. This report meets the audit standard requirements of the American Institute of Certified Public Accountants and the Government Accountability Office to communicate internal control matters identified in a financial statement audit. The audit was conducted by Michael Hassing, CPA, CISA (Audit Manager) and Tim Rekow, CPA (Auditor-in-Charge), assisted by auditor Lat Anantaphong.

We discussed the results of the audit with the commission on July 14, 2009. Management's response to our findings and recommendations is presented in the accompanying section of this report titled, *Agency Response.* We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Metropolitan Sports Facilities Commission's management and the Legislative Audit Commission and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 30, 2009.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Table of Contents

Report Summary

Conclusions

- The Metropolitan Sports Facilities Commission's (commission) financial statements for the year ended December 31, 2008, were presented fairly in accordance with generally accepted accounting principles in all material respects.
- Generally, the commission had adequate internal controls for selected financial operations we tested. However, the commission had internal control weaknesses related to the procurement of goods and services and the accuracy of capital asset records.
- Generally, the commission complied with the finance-related legal requirements we tested. However, commission staff did not always adhere to its procurement policies.

Findings

- Prior Audit Finding Partially Resolved: The commission did not consistently follow its purchasing policies. (Finding 1, page 7)
- Prior Audit Finding Not Resolved: The commission did not have adequate controls to assure that its capital asset records were accurate. (Finding 2, page 7)

Audit Objectives and Scope

Audit Objectives:
- To give an opinion on the commission's financial statements.
- To review internal controls over selected financial operations.
- To determine compliance with finance-related legal requirements.

Audit Period: The fiscal year ended December 31, 2008.

Areas Audited:
- Cash and Investments
- Concessions
- Operating Expenses
- Capital Assets
- Revenues
- Payroll Expenses

Background

The Metropolitan Sports Facilities Commission is comprised of six commissioners appointed by the Minneapolis City Council and a chair appointed by the Governor. The commission operates the Hubert H. Humphrey Metrodome sports stadium, which was originally constructed in 1982. The commission earned approximately $52 million in revenue and spent $58 million on operations during fiscal year 2008.

Metropolitan Sports Facilities Commission

Agency Overview

The Metropolitan Sports Facilities Commission was established by the Minnesota Legislature in 1977 to construct the Hubert H. Humphrey Metrodome sports stadium in Minneapolis, Minnesota. The commission owns and operates the Metrodome, which hosts a variety of events, including professional, college, and amateur sports events, concerts, and community activities.

Under the authority of *Minnesota Statutes* 2008, Chapter 473, the commission is exempt from many of the finance-related legal requirements applicable to state agencies. The commission consists of seven members; the chair is appointed by the Governor of Minnesota, and the six members are appointed by the Minneapolis City Council. The commission appoints the executive director who directs the commission's operations and carries out the policies established by the commission. William Lester has served as the executive director of the Metropolitan Sports Facilities Commission since 1987.

The commission publishes a Comprehensive Annual Financial Report that includes its financial statements and the Office of the Legislative Auditor's audit opinion on the financial statements. The commission is a component unit of the Metropolitan Council of the Twin Cities Area.

The commission realized a net loss of over $6.7 million in 2008. It had $51 million in operating revenues earned chiefly through concession sales at various Metrodome events. Significant expenses included about $14 million for concession costs, a facilities cost credit[1] of over $9 million, over $9 million for the tenants' share of concession receipts, and depreciation of about $5 million.

The commission had net assets of over $33 million at December 31, 2008. Capital assets, net of depreciation, totaled about $17 million; accounts payable and other accrued liabilities of over $8 million represented the commission's largest liability.

[1] The facilities' cost credit was created to help the major users enhance team revenues and/or reduce event day cost of operations in the Metrodome. The commission issues an annual payment to the Minnesota Twins and the University of Minnesota that is equal to the admission tax paid by each team for events in the Metrodome. The commission waives the required rent payment from the Minnesota Vikings in lieu of the facilities cost credit.

Objectives, Scope, and Methodology

Our audit of the commission's financial statements focused on the following objective, which included the consideration of internal controls and compliance with significant legal requirements over financial reporting:

- Were the commission's basic financial statements for the year ended December 31, 2008, fairly presented in accordance with generally accepted accounting principles in all material respects?

In addition to the financial statements objective, we addressed these objectives:

- Were the commission's internal controls over revenues, payroll expenses, administrative expenses, cash and investments, and fixed assets adequate to ensure that it safeguarded receipts and other assets, accurately paid employees and vendors in accordance with management's authorization, and complied with significant finance-related legal requirements?

- For the items tested, did the commission comply with significant finance-related legal requirements, including any applicable state and federal laws, regulations, contracts, and commission policies and procedures?

- Did the commission resolve the prior audit recommendations?[2]

To answer these questions, we reviewed the accounting principles applicable to the commission's financial statements. We gained an understanding of the commission's accounting policies and procedures and the business systems used to administer its financial activities and to prepare the financial statements. We obtained and analyzed electronic accounting data and other audit evidence and reconciled the supporting data to the commission's accounting system. We interviewed key personnel to gain an understanding of the control process for each audited area.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General

[2] Office of the Legislative Auditor's Financial Audit Division Report 08-25, *Metropolitan Sports Facilities Commission*, issued October 16, 2008.

of the United States. We used the guidance contained in the *Internal Control-Integrated Framework*,[3] published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. We also used the commission's internal policies and procedures as evaluation criteria.

Conclusions

The commission's financial statements for the year ended December 31, 2008, were fairly presented in accordance with generally accepted accounting principles in all material respects.

Given the limited nature of our audit work on the financial statements, we do not express an overall opinion on the effectiveness of the commission's internal controls or compliance over financial reporting. In addition, our work may not have identified all significant control deficiencies or instances of noncompliance with legal requirements. However, as explained in the next section, the commission had weaknesses in its internal controls related to its application of purchasing policies and its accuracy of capital asset records. Both weaknesses in internal controls were prior audit issues. We consider these weaknesses to be significant control deficiencies.[4]

In relation to our additional control and compliance objectives, the commission generally had adequate controls and complied with the finance-related legal requirements over revenues, payroll expenses, administrative expenses, cash and investments, and fixed assets.

[3] The Treadway Commission and its Committee of Sponsoring Organizations were established in the 1980s by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

[4] According to auditing standards, a significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We do not consider these deficiencies to be material weaknesses.

Findings and Recommendations

Finding 1

Prior Audit Finding Partially Resolved: The Metropolitan Sports Facilities Commission did not consistently follow its purchasing policies.

The commission allowed some vendors to perform services before a contract or purchase order was completed and authorized. In 8 of 54 operating expense transactions tested, or 15 percent, vendors performed services between two days and over six months prior to a contract or purchase order being completed and fully authorized. The value of these services ranged from $272 to $13,550.

The commission's procurement and contract policies cite that a vendor is not authorized to proceed with preparation or delivery of a service without a signed purchase order or other written contract.[5] Operating expenses incurred prior to authorization could result in purchases that are not allowable or reasonable per procurement policies.

Recommendation

- *The commission should follow its procurement and contract policies to assure that it completes and approves purchase orders and contracts before the vendor performs services.*

Finding 2

Prior Audit Finding Not Resolved: The Metropolitan Sports Facilities Commission did not have adequate controls to assure that its capital asset records were accurate.

The commission performs a physical inventory of selected capital assets at certain locations within the Metrodome each year. An individual at each location was given a list of assets and was required to locate the asset and verify the inventory record. When conducting the 2008 physical inventory, commission staff was unable to locate 24 of the 111 selected items, or about 22 percent. In addition, the commission's 2008 inventory count identified a number of assets that were not accurately identified on the fixed asset inventory list or at the specified location.

The commission did not promptly complete asset disposal forms or notify the finance office that an asset was no longer in use or moved to a different location. Generally, the commission's process was that staff should complete a *Fixed Asset Disposal or Transfer Form* when disposing of an asset or before moving an asset

[5] Metropolitan Sports Facilities Commission Policies Article VII, Section 6 and Article VIII, Section 2.1.

to another location. For three of the five capital assets tested, the commission prepared asset disposal forms to correct the fixed asset records after being unable to locate certain assets while performing the periodic inventory.

While all of the unlocated assets were fully depreciated and, therefore, insignificant to the financial statements, they were assets acquired with public funds for which the commission is accountable. Without an accurate inventory process, there is an increased risk of undetected recording errors and loss of assets.

Recommendations

- *The commission should ensure its accountability of capital assets, in accordance with their policies and procedures.*

- *The commission should analyze and determine which capital assets are most essential for periodic inventory, such as sensitive or technology-related items, or those with significant book value, and provide a complete accountability of those items.*

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July 21, 2009

Mr. James R. Nobles
Legislative Auditor
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Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations included in the financial statement audit report of the Metropolitan Sports Facilities Commission for the period January 1, 2008, through December 31, 2008. In the Findings and Recommendations section of this report there were two findings and three recommendations:

Finding #1: The Metropolitan Sports Facilities Commission did not consistently follow its purchasing policies.

Recommendation:

- The Commission should follow its procurement and contract policies to assure that it completes and approves purchase orders and contracts before the vendor performs services.

Response:
The Commission concurs with the recommendation and will complete and approve purchase orders and contracts prior to the performance of services. As a practical matter, there are exceptions or occasions when the terms of a purchase order or a contract are verbally agreed to by the parties prior to the performance of services, and then at a later date the purchase order or contract is completed. In the future when exceptions occur and services are performed prior to completion of a purchase order or a contract the Commission will document the terms of the verbal agreement.

Finding #2: The Metropolitan Sports Facilities Commission did not have adequate controls to assure that its capital asset records were accurate.

Recommendations:

- The Commission should ensure its accountability of capital assets, in accordance with their policies and procedures.

- The Commission should analyze and determine which capital assets are most essential for periodic inventory, such as sensitive or technology-related items, or those with significant book value, and provide a complete accountability of those items.

HUBERT H. HUMPHREY
METRODOME

METROPOLITAN SPORTS
FACILITIES COMMISSION

AFFIRMATIVE ACTION/
EQUAL OPPORTUNITY EMPLOYER

Response:
The Commission concurs with the recommendations and will account for its capital assets in accordance with its policies and procedures. The Commission will review its inventory procedures and implement changes that improve control over its capital assets.

Thank you for the opportunity to respond to your findings and recommendations.

Sincerely,

William J. Lester