

Financial-Related Audit

**Minnesota Amateur Sports
Commission**
July 1, 1998, through June 30, 2001



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

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Minnesota Amateur Sports Commission

Members of the Minnesota Amateur Sports Commission

Paul Erickson, Executive Director
Minnesota Amateur Sports Commission

We have audited the Minnesota Amateur Sports Commission for the period July 1, 1998, through June 30, 2001. Our audit scope included grant expenditures, payroll, other administrative expenditures, and the commission’s relationship with its foundations and other organizations. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Minnesota Amateur Sports Commission complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Minnesota Amateur Sports Commission is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Amateur Sports Commission. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 22, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 31, 2002

Report Signed On: August 19, 2002

Minnesota Amateur Sports Commission

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

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David Poliseno, CPA, CISA, CFE	Audit Manager
Laura Peterson, CPA	Auditor-in-Charge
Doreen Bragstad	Auditor
Marisa Zenk	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Minnesota Amateur Sports Commission at an exit conference on August 8, 2002:

Paul Erickson	Executive Director
Lynda Lynch	Fiscal Coordinator

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Report Summary

Overall Audit Conclusions:

The Minnesota Amateur Sports Commission conducted its financial operations in a reasonable and prudent manner. The commission's internal controls provided reasonable assurance that it safeguarded assets, properly recorded its financial activities in the accounting records, and complied with significant finance-related legal provisions. For the items tested, except for certain grant agreement provisions, the commission complied with significant finance-related legal provisions.

Key Findings and Recommendations:

- The commission did not provide the National Sports Center Foundation with written operating and capital project procurement policies and procedures. The commission should work with the foundation to develop formal policies and procedures for operating the National Sports Center campus and procuring capital project contractors and materials. (Finding 1, page 7)
- The commission did not consistently comply with its grant agreements. It did not always comply with the contract payment terms, and in some cases it disbursed grant funds after the contract expired. In addition, it allowed a grantee to change the original project outlined in the grant contract without amending the contract. Finally, it did not obtain written agreements with two sub-grantees. (Finding 2, page 12)
- The commission did not properly record the liability date in the state's accounting system. (Finding 3, page 14)

Background:

The Minnesota Amateur Sports Commission was created in 1987 and operates pursuant to Minn. Stat. Chapter 240A. The mission of the commission is to "evaluate the economic and social benefits of amateur sports to enrich the lives of Minnesotans." The commission consists of twelve voting members and four nonvoting members. The commission membership must have four members experienced in promoting amateur sports. Paul Erickson was appointed as the commission's first executive director in September 1987 and continues to serve in that capacity.

Financial-Related Audits address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our work at the Minnesota Amateur Sports Commission included employee payroll and per diem, grants, contractual services, and administrative expenditures for the period July 1, 1998, through December 31, 2001. The Minnesota Amateur Sports Commission's response to our recommendations is included in the report.

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Minnesota Amateur Sports Commission

Chapter 1. Introduction

The 1987 Legislature created the Minnesota Amateur Sports Commission, which operates under Minn. Stat. Chapter 240A. Its mission is to “evaluate the economic and social benefits of amateur sports to enrich the lives of Minnesotans.” The commission has three major goals:

- 1) To create economic impact development through amateur sports;
- 2) To create the maximum opportunity for sport participation for all Minnesotans; and
- 3) To establish Minnesota as a national model for the Olympic and amateur sport movement.

Paul Erickson was appointed as the commission’s first executive director in September 1987 and continues to serve in that capacity.

Statutory guidelines establish the commission’s membership. The commission consists of twelve voting members and four nonvoting members. The commission must have four members experienced in promoting amateur sports. One member of the commission must reside in each of the state’s congressional districts. The commission members are gubernatorial and legislative appointments. The Governor appoints nine voting members to three-year terms. The Governor, Speaker of the House of Representatives, and Senate Majority Leader each appoint a member to a two-year term, providing three additional voting members. The four nonvoting members are legislators, two from the House, and two from the Senate. The commission conducts monthly meetings, which are open to the public.

The Minnesota Amateur Sports Commission is housed at the National Sports Center campus in Blaine, Minnesota. The state owns the National Sports Center land and facilities. The National Sports Center campus is designed to support various athletic events including soccer, track and field, cycling, hockey, and golf. The commission contracts with the National Sports Center Foundation, a separate nonprofit organization, to operate the National Sports Center facilities. In addition to operating the facilities, the National Sports Center manages the construction of any new facilities.

The Legislature provided General Fund appropriations for the Minnesota Amateur Sports Commission’s general operations. In addition, the commission received capital project and grant funding. Table 1-1 shows the sources and uses of the commission’s funds during the three-year audit period.

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**Table 1-1
Sources and Uses of Funds
Budget Fiscal Years 1999 through 2001**

Sources	1999	2000	2001
General Fund Appropriations:			
General Operations	\$599,000	\$619,000	\$639,000
Mighty Kids Grants	400,000		
Olympic Development Grant	100,000		
Target Center Lease	750,000	750,000	750,000
Special Revenue Appropriations:			
Center for Energy & Environment		100,000	
Capital Projects Appropriation:			
Ice Center Grants		810,000	
National Sports Conference Center		300,000	
Interagency Revenues	300,000	100,000	
Balance Forward In ⁽¹⁾	2,126,573		15,110
Total Sources	\$4,275,573	\$2,679,000	\$1,404,110
Uses			
Payroll	\$533,538	\$524,467	\$539,515
Travel	17,439	19,133	21,483
Supplies and Equipment	17,942	34,848	55,913
Grants ⁽³⁾⁽⁴⁾	3,581,125	1,606,913	750,000
Other ⁽²⁾	50,370	25,442	32,469
Total Expenditures	\$4,200,415	\$2,210,803	\$1,399,380
Balance Out		15,110	
Cancelled	75,159	76,587	4,730
Total Uses	\$4,275,573	\$2,302,500	\$1,404,110

(1) The \$2,126,573 in fiscal year 1999 represents Mighty Ducks ice arena grant funds carried forward to the second year of the biennium.

(2) The fiscal year 2001 other expenditures includes \$3,388 of encumbered funds.

(3) In addition to the grants shown in this table, the commission disbursed nearly \$14 million more during the audit period for grants appropriated prior to budget fiscal year 1999. Table 3-1 shows all grants disbursed during the audit period on a cash basis.

(4) The fiscal year 2000 grants include a \$300,000 payment to the National Sports Center Foundation for the pre-design work done on the National Sports Conference Center. In addition, the 1998 Legislature appropriated \$4.8 million for the purchase of land and the development of the National Children's Golf Course. During the audit period, the commission paid the National Sports Center \$4.7 million to purchase and develop the land.

Source: Minnesota Accounting and Procurement System (MAPS) based on the budgetary year basis as of March 31, 2002.

Chapter 2. Foundations and Other Organizations

Chapter Conclusions

The Minnesota Amateur Sports Commission established formal agreements with its foundations and other organizations. However, the commission did not provide the National Sports Center Foundation with written policies and procedures for operating the sports center facilities and constructing new facilities.

Minn. Stat. Chapter 240A.03, Subd. 13, empowers the commission to establish nonprofit corporations and charitable foundations. Table 2-1 summarizes the various foundations and other organizations associated with the commission.

**Table 2-1
Amateur Sports Commission
Associated Organizations**

<u>Organization</u>	<u>Purpose</u>
National Sports Center Foundation	Operates the National Sports Center in Blaine
MN Amateur Sports Center Foundation	Conducts charitable fundraising to provide sports grants
Star of the North State Games, Inc.	Plans and administers the Star of the North winter and summer games

Source: Minnesota Amateur Sports Commission's internal documents and discussions with commission staff.

National Sports Center Foundation

The commission contracted with the National Sports Center Foundation, a nonprofit organization, to operate the National Sports Center facilities. The commission had a one and a half year renewable contract with the foundation, which expired on June 30, 2002. Effective July 1, 2002, the commission and the foundation renewed the contract. The foundation agreed to operate the National Sports Center campus and facilitate sport facility improvements, additions, and new facilities. During the audit period, the commission paid the foundation \$300,000 for the pre-design work on the National Sports Conference Center and an additional \$4.7 million for the purchase of land and related improvements adjacent to the National Sports Center, including the construction of the National Children's Golf Course. The foundation also received revenue from program and event registration fees, as well as from dormitory and facility rentals and food and beverage sales. The foundation also received charitable contributions. According to an

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independent CPA's audit of the foundation's financial statements for the year ended December 31, 2001, the foundation reported a positive change in net assets of \$329,511. As of that date, the foundation had a total net asset balance of \$2,204,736.

The National Sports Center Foundation bylaws require no less than three board members. The foundation currently has a seven-member board. During our last audit, the foundation board members appointed their own members. In December 2000, upon the approval of the Attorney General's Office, the foundation changed its bylaws to require the Minnesota Amateur Sports Commission to appoint the foundation board members. The Attorney General's Office approved the change to avoid raising "private business use" issues when the commission requests proceeds of tax exempt bonds of the State.

Minnesota Amateur Sports Commission Foundation

The mission of the Minnesota Amateur Sports Commission Foundation is to "support the development of maximum sport and physical fitness opportunities for all Minnesotans regardless of age, gender, race, ability, geography, or economic status, as well as successfully assist in accomplishing the goals of the Minnesota Amateur Sports Commission." This foundation raises the majority of its funds during an invitational putting tournament and Charity Golf Classic event. The foundation then grants the funds raised to various amateur sporting programs and associations. In fiscal year 2001, the foundation granted \$14,500 to five different programs. The commission provides administrative support to the foundation.

Star of the North State Games, Inc.

The Star of the North State Games are annual Olympic-style amateur sporting events for Minnesota athletes. The games began in 1988 and various Minnesota cities have hosted the event, including St. Cloud, Burnsville, Rochester, Moorhead, and other metro cities. The Star of the North State Games, Inc., a non-profit corporation created by the commission, owns and operates the annual events. The Star of the North State Games, Inc. receives 90 percent of its funding through participant fees and the remaining 10 percent from the host cities. The commission's associate director serves as the director for the games.

Audit Objective and Methodology

We focused our review of the foundations and other organizations on the following objective:

- Did the commission establish formal agreements with its foundations and other organizations?

To answer this question, we interviewed commission staff to gain an understanding of the relationship the commission has with its related organizations. In addition, we reviewed the written agreements between the commission and each organization. We also reviewed the audited financial statements of the National Sports Center Foundation. Finally, we reviewed certain payments the commission made to the National Sports Center Foundation related to the

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construction of capital projects funded with state money. Our audit of the commission did not extend to an examination of the financial records of any of these organizations.

Conclusion

The Minnesota Amateur Sports Commission established formal agreements with its foundations and other organizations. However, as explained in Finding 1 below, the commission did not provide the National Sports Center Foundation with written policies and procedures for operating the sports center facilities and constructing new facilities.

1. The commission did not ensure that the National Sports Center Foundation had appropriate policies and procedures for operating the sports center facilities and constructing new facilities.

The Minnesota Amateur Sports Commission did not ensure the National Sports Center Foundation had appropriate policies and procedures as provided for in its written agreement with the foundation. The agreement stated, “The foundation...will follow the policy and procedures for operating the center established by the Commission.” These procedures should address areas such as hosting events, obtaining and providing sponsorships, and maintaining the facility. In addition to operating the center, these policies and procedures should address the procurement of capital project contractors and materials.

The majority of the capital projects are funded with state dollars. We reviewed the procurement documentation for two capital projects that the foundation managed. Generally, the foundation used an open and fair bidding process. However, we found an inconsistency in the way the foundation solicited bids. The foundation published a formal request for proposal (RFP) when it procured an architect to design the Nation Sports Conference Center costing \$135,000. In contrast, rather than publish an RFP for the construction of the Youth Golf Putting Course that cost \$355,000, the foundation followed a staff process to prequalify three construction companies. The foundation staff identified the three companies through researching the golf industry. The commission then solicited bids from the three companies and awarded the bid. By not establishing written policies and procedures for the foundation, the risk increases that the foundation may not perform in the manner required by the commission.

Recommendation

- *The commission should work with the National Sports Center Foundation to develop formal policies and procedures for operating the National Sports Center campus and procuring capital project contractors and materials.*

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Chapter 3. Grant Expenditures

Chapter Conclusions

Generally, the Minnesota Amateur Sports Commission accurately recorded its grant expenditures in the state's accounting system and complied with applicable legal provisions and management's authorization. However, the commission did not record the correct liability date in the state's accounting system.

For the items tested, except for the following issue, the commission complied, in all material respects, with the significant finance-related legal provisions concerning grants. We found the commission did not consistently comply with certain terms of its grant agreements.

The Minnesota Amateur Sports Commission has the authority to establish grants as part of its mission to promote the economic and social benefits of sports. Beginning in 1995, the Legislature funded the "Mighty Ducks" Ice Arena Grant Program. Through this program, the commission provided grants to communities for the construction and renovation of ice facilities throughout the state. In 1997, the commission began another program, called the "Mighty Kids" Grant Program, to facilitate sports opportunities for youth, especially during non-school hours. Finally, the legislature appropriated other grant money for several one-time grants. Table 3-1 shows the disbursements the commission made for grant expenditures during the audit period.

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**Table 3-1
Summary of Grant Disbursements
By Cash-Basis Fiscal Years**

	1999	2000	2001
General Fund Appropriations			
Community Olympic Development Program	\$150,000	\$100,000	
Blaine and Rochester Golf Learning Centers		200,000	
Ice Center Grants (Mighty Ducks Grants)	1,662,500	1,866,500	\$450,000
Minneapolis Urban Sports Center		600,000	
Mount. Itasca Ski Area	130,000		
Richfield Athletic Fields			2,000,000
Target Center Lease	750,000	750,000	750,000
Women's World Hockey		100,000	
Youth Sports Projects (Mighty Kids Grants)	297,445	388,180	41,000
Special Revenue Fund			
Center For Energy and Environment		100,000	
Capital Projects Fund			
Hyland Hill/Bush Lake Ski Jump	251,639	248,361	
Ice Center Grants (Mighty Ducks Grants)	2,025,000	400,000	433,500
Junior Oval Speedskating Facility	500,000		
Minneapolis Urban Sports Center	2,000,000	1,400,000	
National Volleyball Center in Rochester	2,300,000		
Total Grant Disbursements	\$10,066,584	\$6,153,041	\$3,674,500

Source: Minnesota Accounting and Procurement System (MAPS) based on the cash year basis as of June 30, 2001.

“Mighty Ducks” Ice Center Grants

In 1995, the Minnesota Amateur Sports Commission initiated the Mighty Ducks Grant Program because of the serious shortage of ice sheets throughout the state. This shortage was caused, in part, by the rapid growth of girls’ hockey. Since the inception of this program, the Legislature has appropriated \$17,685,000 for this specific purpose. For the years 1995 through 2001, the commission spent \$16,816,888 from these appropriations for new and renovated hockey arenas. The commission awarded the majority of these grants for the years 1995 through 1998 with approximately 80 percent of the funds granted to new arenas.

Minn. Stat. Section 240A.09 provides the guidelines for awarding ice center construction and renovation grants. Communities were eligible for grants up to \$250,000 for the development of each new sheet of ice and up to \$100,000 for the renovation of each existing ice arena. In order to receive a grant for a new arena, applicants must be willing to match the state funds by

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at least a 1:1 ratio. A committee of commission members rated all incoming applications, based on an evaluation matrix derived from the commission's awarding guidelines, and made recommendations to the full commission. The commission members then voted on all grant awards. The commission disbursed the grants after the grantee complied with the terms of the grant agreement.

“Mighty Kids” Youth Sports Grants

In the Laws of 1997, the Legislature appropriated \$400,000 each year for fiscal years 1998 and 1999 for youth sports pilot projects. These appropriations are commonly known as the Mighty Kids Youth Sport Grant Program. The purpose of this appropriation was to assist Minnesota communities in the start-up of programming or the expansion of existing youth sports, recreational, and other leisure activities. Criteria used to award these grants included the intent to provide youth sport activities for the entire community, an emphasis to provide access to low-income or at-risk youth, and a plan to ensure equal access for youth of each gender. Grant recipients had to have at least one local partner who was a political subdivision of the State of Minnesota.

The Mighty Kids Program provided up to \$20,000 per grant to state agencies, counties, cities, and school districts. Beginning in 1999, the Legislature changed the law and required grantees to match the grant on a 1:1 ratio. Prior to that, even though the laws did not require it, the commission's guidelines required a match for grants that exceeded \$2,500. Since the inception of the program, the commission paid grantees \$761,125 for the Mighty Kids program.

Target Center Lease

Pursuant to Minn. Stat. Section 240A.08, the Minnesota Amateur Sports Commission received appropriations of \$750,000 each year to enter into a long-term lease agreement with the Metropolitan Sports Facilities Commission to conduct amateur sports activities at the basketball and hockey arenas at the Target Center. The same statute allows the commission to sell its Target Center usage dates to third parties, although the commission has not done so.

On March 1, 1995, the Minnesota Amateur Sports Commission entered into a contract agreement with Ogden Entertainment Services, Inc. and the Metropolitan Sports Facilities Commission that allows the commission to use the Target Center for up to 50 event dates per year. The contract restricts the commission's ability to sell its Target Center dates to other amateur sporting events. In addition, the commission must pay the incremental costs for use of the Target Center, such as the scoreboard system electricity, the sound system and announcer, the arena lighting system, the arena heating and cooling costs, and cleaning and restocking the arena restrooms during the use period. Minnesota Amateur Sports Commission officials stated that these incremental costs make the use of the Target Center expensive as compared to other venues in the Twin Cities area. As a result, the commission decided it was not cost beneficial to schedule events at the facility. Consequently, the commission used the Target Center on only six dates during the three years of our audit period.

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Other Grants

In its capital project appropriations (Laws of 1996, Chapter 463, Section 14, and Laws of 1998, Chapter 404, Section 15), the commission received a variety of one-time grants for specific purposes throughout the state. For example, the Minneapolis Urban Sports Center received two grants of \$3,400,000 and \$600,000 to complete an urban sports facility to be managed and operated by Special School District No. 1. In addition, the City of Rochester received a \$2.3 million grant to design, construct, furnish, and equip a national volleyball center. This grant was contingent upon a local match of at least \$2.3 million from non-state sources.

Audit Objectives and Methodology

We focused our review of the grant expenditures on the following objectives:

- Did the commission's internal controls provide reasonable assurance that grant expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the commission comply, in all material respects, with the significant finance-related legal provisions concerning grant expenditures?

To answer these questions, we made inquiries of the commission staff to gain an understanding of the purpose of the grants and the internal control structure over grant disbursements. In addition, we analyzed grant expenditures to identify any unusual trends. Finally, we tested a sample of expenditures to determine if the commission accurately recorded the expenditures in the accounting system and complied with applicable legal provisions including grant agreements.

Conclusions

Generally, the Minnesota Amateur Sports Commission accurately recorded its grant expenditures in the state's accounting system and complied with applicable legal provisions and management's authorization. However, as discussed in Finding 3, the commission did not record the correct liability date in the state's accounting system.

For the items tested, except for the following issue, the commission complied, in all material respects, with the significant finance-related legal provisions concerning grants. As discussed in Finding 2, the commission did not consistently comply with certain terms of its grant agreements.

2. The commission did not consistently comply with the terms of its grant agreements.

The Minnesota Amateur Sports Commission did not comply with certain terms of various grant agreements. The commission enters into grant agreements with each grant recipient. The agreements stipulate each party's rights and responsibilities and conditions for receiving the grants. Our review of the grants disclosed the following weaknesses:

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- The commission did not comply with certain disbursement requirements in the grant agreements. Our sample of 29 grant contracts tested disclosed the following three problems:
 - The commission advanced one grantee its entire award of \$100,000 for a pass through grant to enhance energy efficiency and assure indoor quality in new and existing ice areas. However, according to the contract drafted by the Department of Finance, the payment terms were on a reimbursement basis. Almost two years after receiving the advance, the grantee returned \$76,587 of funds it did not spend. The commission should have disbursed the funds after it received invoices or other supporting documentation from the grantee showing that it had incurred the costs.
 - The commission paid the Iron Range Resources and Rehabilitation Agency (IRRRA) \$130,000 before it received the required certifications from the sub-grantee. The Legislature appropriated funds to the commission as a flow-through grant to the IRRRA for expanding the Mount Itasca Ski area. The contract between the IRRRA and the commission required the sub-grantee, a local ski and outing club, to certify to the commission that it obtained the necessary building permits and other certifications before it received any funds.
 - The commission paid one Mighty Kids grantee \$10,000 even though the grantee did not meet the matching requirement by the end of the grant period. The payment terms in the agreement required the grantee to provide evidence that it met the one-to-one matching requirement before it received any grant proceeds. As of the contract expiration date of June 30, 1999, the grantee only provided \$2,646 in matching funds. The grantee eventually met the matching requirement and on November 12, 1999, the commission paid the grantee \$10,000. The commission should have formally extended the grant period.
- In two of the 29 grants tested, we found that the commission did not pay the grantees within the period of availability of funds. Each of the grant agreements included an end date that terminated the commission's obligation to disburse funds to the grantees unless both parties executed an extension to the agreement. We found no evidence that the two parties agreed to extend the contracts. The commission made one payment of \$500,000 26 days after the termination date and another payment of \$250,000 39 days after the termination date.
- The commission paid for a project different than the one approved in the grant contract. For one Mighty Kids project, the commission awarded the grantee \$15,000 for improved baseball field lighting. However, the grantee did not raise the required funds to complete the project. Therefore, the commission allowed the grantee to construct a new baseball field but did not amend the original contract.

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- Finally, the commission did not enter into written agreements with two sub-grantees. The commission was awarded some national grants that required state matching. In 1999, the governor vetoed the appropriation laws that contained the funding to meet the matching requirements. With help from the Department of Finance, the commission entered into the two interagency agreements with the Departments of Children, Families & Learning and Trade and Economic Development. The commission received \$400,000 from these agencies and sub-granted the funds. However, the commission never executed written agreements with these sub-grantees.

By not complying with the terms of its grant contracts and not obtaining grant contracts, the risk increases that a grantee may use the grant proceeds for unallowable purposes.

Recommendation

- *The commission should comply with the terms of its grant agreements and ensure that it has written agreements for grants to sub-grantees.*

3. PRIOR FINDING NOT RESOLVED: The commission did not accurately record the liability date in the state's accounting system.

The commission did not correctly enter the record date on MAPS, the state's accounting system, for certain expenditure transactions. The state uses the record date to record the date the state incurs a liability. According to government accounting standards, the liability for grant expenditures generally occurs when all applicable eligibility requirements have been met. Rather than recording the proper date, the commission used the MAPS' default date about 80 percent of the time. The MAPS' default date is the date the commission entered the transaction in the accounting system.

In addition, for 11 of the 14 administrative expenditure transactions tested, we found the commission did not use the correct MAPS' record date. Generally, the commission incurs a liability for administrative expenditures when it receives the goods or services. Again, rather than entering the correct record date, the commission let MAPS assign the default date to the transaction. Coding errors result in inaccurate and inconsistent information in MAPS.

Recommendation

- *The commission should enter the date it incurred the liability as the record date on MAPS.*

Chapter 4. Personnel/Payroll

Chapter Conclusions

The Minnesota Amateur Sports Commission's internal controls provided reasonable assurance that employees were accurately compensated in compliance with the applicable bargaining agreements and management's authorization, and that payroll expenditures were properly recorded in the accounting and payroll systems. However, during the audit period, the commission did not separate the personnel and payroll functions. Beginning in fiscal year 2002, the commission corrected this weakness by having an independent person review the personnel and payroll activities.

For the items tested, the commission complied, in all material respects, with the significant finance-related legal provisions and related employee bargaining agreements and compensation plans.

The Minnesota Amateur Sports Commission employs eight permanent employees. The commission employees belong to various bargaining units and compensation plans, including the American Federation of State, County, and Municipal Employees; the Minnesota Association of Professional Employees; the Commissioner's Plan; and the Managerial Plan. In addition, the commission paid its commission members per diems for attending commission meetings and activities. Table 4-1 shows the payroll expenditures for fiscal years 1999 through 2001.

Table 4-1
Summary of Payroll and Per Diem Expenditures
By Budget Fiscal Year

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Payroll ⁽¹⁾	\$515,634	\$511,775	\$527,975
Per Diem Payments ⁽²⁾	17,545	12,300	11,174
Workers/Unemployment Comp	<u>360</u>	<u>392</u>	<u>367</u>
Total	<u>\$533,539</u>	<u>\$524,467</u>	<u>\$539,516</u>

(1) The payroll expenditures include employees' gross wages and employer paid taxes and benefits.

(2) Per diem is paid to commission members pursuant to Minn. Stat. Section 15.059. The amounts shown include \$25,245 paid to the commission chair in the three-year period.

Source: Minnesota Accounting and Procurement System (MAPS) as of March 31, 2002.

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Audit Objectives and Methodology

We focused our review of payroll on the following objectives:

- Did the commission's internal controls provide reasonable assurance that it accurately compensated its employees and properly recorded payroll expenditures in the state's accounting system?
- For the items tested, did the commission comply, in all material respects, with the significant finance-related legal provisions and related employee bargaining agreements and compensation plans?

To meet these objectives, we interviewed Minnesota Amateur Sports Commission staff to gain an understanding of the internal control structure over personnel and payroll processing. We analyzed biweekly payroll transactions and verified that hours processed were supported by timesheets authorizing hours worked and leave taken. We reviewed employee access to update SEMA4 human resource and payroll data. Finally, we analyzed the per diem payments and verified that selected payments were supported by expense reports.

Conclusion

The Minnesota Amateur Sports Commission's internal controls provided reasonable assurance that employees were accurately compensated, and that payroll expenditures were properly recorded in the accounting and payroll systems. However, during the audit period, the commission did not separate the personnel and payroll functions. The same person set up employee assignments in the state's payroll system and processed the biweekly payroll information. The risk of errors and irregularities increases when the same person performs both of these functions. Beginning in fiscal year 2002, the commission corrected this weakness by having an independent person review the personnel and payroll activities.

For the items tested, the commission complied, in all material respects, with the significant finance-related legal provisions and related employee bargaining agreements and compensation plans.

Chapter 5. Other Administrative Expenditures

Chapter Conclusions

The commission's internal controls provided reasonable assurance that it safeguarded assets, properly recorded the administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorization. However, as discussed in Chapter 3, Finding 3, the commission did not use the correct record date in the state's accounting system. In addition, during the audit period, the commission did not separate the purchasing and disbursing duties. Beginning in fiscal year 2002, the commission corrected this weakness by having an independent person review monthly expenditure reports.

For the items tested, the commission complied, in all material respects, with the significant finance-related legal provisions governing procurement and disbursements.

During the audit period, the Minnesota Amateur Sports Commission spent about \$272,000 on other administrative expenditures. Table 5-1 shows the details for these administrative expenditures during the audit period.

Table 5-1
Summary of Administrative Expenditures
By Budget Fiscal Year

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Supplies & Equipment	\$17,942	\$34,848	\$55,913
Travel	17,439	19,133	21,483
Printing	14,785	2,409	4,069
Communication & Computer Services	13,424	12,230	9,486
Professional & Technical Services	0	0	9,945
Other	<u>22,162</u>	<u>10,802</u>	<u>5,582</u>
Total	<u>\$85,752</u>	<u>\$79,422</u>	<u>\$106,478</u>

Source: Minnesota Accounting and Procurement System (MAPS) budget fiscal year 1999 through 2001, as of March 31, 2002.

Audit Objectives and Methodology

We focused our review of other administrative expenditures on the following objectives:

Minnesota Amateur Sports Commission

- Did the commission's internal controls provide reasonable assurance that it safeguarded assets, properly recorded administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorization?
- For the items tested, did the commission comply, in all material respects, with the significant finance-related legal provisions governing procurement and disbursements?

To answer these objectives, we interviewed commission staff to obtain a general understanding of the internal control structure, analyzed the other administrative expenditure data to determine unusual trends, and reviewed source documents.

Conclusions

The commission's internal controls provided reasonable assurance that it safeguarded assets, properly recorded administrative expenditures in the accounting records, and complied with applicable legal provisions and management's authorization. However, as discussed in Chapter 3, Finding 3, the commission did not use the correct record date in the state's accounting system. In addition, during the audit period, the commission did not separate the purchasing and disbursing duties. The risk of errors and irregularities related to all non-payroll expenditures, including grants, increases when the same person performs both of these functions. Beginning in fiscal year 2002, the commission corrected this weakness by having an independent person review monthly expenditure reports.

For the items tested, the commission complied, in all material respects, with the significant finance-related legal provisions governing procurement and disbursements.

Status of Prior Audit Issues As of June 30, 2001

Most Recent Audit

June 23, 1999, Legislative Audit Report 99-31 covered the three fiscal years ended June 30, 1998. That audit scope included a review of compliance with applicable finance-related legal provisions, grant expenditures, personnel and payroll, and other administrative expenditures. That report included 11 reportable issues. With the exception of Finding 9, which is repeated in Chapter 3, Finding 3, of this report, the Minnesota Amateur Sports Commission substantially resolved all prior findings. However, for Finding 11, we found the commission did not pay employees the correct mileage reimbursements. Since that audit, the commission recovered the overpayments identified in the prior audit report but did not determine if it overpaid other employees. In addition, in the prior Finding 6, we noted the commission did not consistently document the authorization for performance-based pay increases. During the current audit period, we found the commission did not conduct timely evaluations of its employees, but in fiscal year 2002, it updated all employees' performance evaluations.

August 15, 2002

Mr. James R. Nobles
Legislative Auditor
140 Centennial Building
548 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to provide a response to the recent legislative audit and subsequent draft audit report for our agency for the period of July 1, 1998 through June 30, 2001.

We truly appreciated the efforts and assistance provided by the members of your audit team and the professionalism implored by each of them on a daily basis.

Attached is our written response to the finding cited in the draft audit report. We hope you will find our response acceptance and in compliance with your requirements. Please feel free to contact me if you have any questions or need additional information. I can be reached at 763-785-5632.

Sincerely,

/s/ Paul D. Erickson

Paul D. Erickson
Executive Director
Minnesota Amateur Sports Commission

MINNESOTA AMATEUR SPORTS COMMISSION

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MINNESOTA AMATEUR SPORTS COMMISSION

AGENCY RESPONSE TO LEGISLATIVE AUDIT REPORT

(July 1, 1998 - June 30, 2001)

Finding #1: The Commission did not ensure that the National Sports Center Foundation had appropriate policies and procedures for operating the sports center facilities and constructing new facilities.

Response: The Commission has worked with the Foundation to develop effective procedures and practices since 1990. The Commission will continue to work with the foundation to further update and formalize the current procedures and will ensure that all practices are consistent with state policy and procedures. The Commission's Executive Director will oversee this process and will make effort to have it completed within the next year.

Finding #2: The Commission did not consistently comply with the terms of its grant agreements.

Response: The Commission will review and improve its monitoring of the grant administration process. The Fiscal Coordinator for the Commission will ensure that all future grant processing procedures and requirements are adhered as specified in the terms of the agreement(s) and will make sure that if there are amendments/changes to a grant, that written documentation is obtained and maintained in the proper records.

In the case of the Energy Efficiency grant, the Commission was merely a pass-through agency for the LCMR and a member of our staff received the recommended processing procedure from the LCMR and we processed accordingly. The Commission was not involved in the origination or development of the contract.

Also noted is a grant where reimbursement was made for a project different than the one approved in the grant contract. It has been the practice of the Commission to approve a change in the grant scope, if requested by grantee, as long as the scope is consistent with the original sport requested in the grant application. Example: the grantee referenced had received funds for lighting of a baseball field and due to various circumstances requested using the funds for the construction of a new baseball field. The Commission will make sure that proper written documentation is received and maintained for these types of situations.

Finding #3: The Commission did not accurately record the liability date in the state's accounting system.

The Commission's Fiscal Coordinator will work with the appropriate staff at the Department of Finance to secure a better understanding of the various procedural guidelines regarding recording the proper liability date in the various accounting activities with a goal of successful and ongoing completion within the next six months.