



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

**Metropolitan Sports Facilities
Commission**

Fiscal Year Ended December 31, 2004



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 forty 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.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Metropolitan Sports Facilities Commission

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Patrick Phillips, CPA	Auditor-in-Charge
Steve Johnson, CPA	Senior Auditor
John Hakes, CPA	Senior Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Metropolitan Sports Facilities Commission at an exit conference on June 14, 2005:

Richard Jefferson	Board Member, Chair of Finance Committee
William Lester	Executive Director
Mary Fox-Stroman, CPA	Director of Finance
Linda Brennan	Finance Assistant
Teri Portinen	Finance Assistant
Kathleen Lamb	Legal Counsel
Corey Ayling	Legal Counsel

Report Summary

Key Conclusions:

- We issued an unqualified opinion on the Metropolitan Sports Facilities Commission's (Commission) financial statements as of and for the year ended December 31, 2004.
- We identified and reported two findings in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.

Findings:

- The Commission and the Minnesota Twins continue to operate under an expired 1998 baseball use agreement. (Finding 1, page 4)
- The Commission did not formalize team financial commitments to pay for advertising displays intended to enhance team revenue. (Finding 2, page 4)

The audit report contained two audit findings related to internal controls and finance-related legal compliance.

Audit Scope:

Audit Period:

Fiscal year ended December 31, 2004

Selected Audit Areas:

- Cash and Cash Equivalents
 - Capital Assets
 - Revenues
 - Concessions
 - Payroll and Operating Expenses
-

Agency 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.



**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Senator Ann H. Rest, Chair
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

We have audited the financial statements of the Metropolitan Sports Facilities Commission as of and for the year ended December 31, 2004, and have issued our report thereon dated April 27, 2005. 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 of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Metropolitan Sports Facilities Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as Finding 1 and Finding 2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that

Metropolitan Sports Facilities Commission

misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Metropolitan Sports Facilities Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Legislative Audit Commission and the Metropolitan Sports Facilities Commission's management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 27, 2005

Report Signed On: June 24, 2005

Current Findings and Recommendations

1. The Metropolitan Sports Facilities Commission and the Minnesota Twins continue to operate under an expired 1998 baseball use agreement.

The 1998 baseball use agreement that governs the Minnesota Twins' use of the Metrodome stadium specified a 5-year term that was set to expire after the 2002 baseball season. As part of a legal settlement, the Minnesota Twins agreed to use the stadium for the 2003 season under the terms of the 1998 agreement. Since that time, the Commission has requested that the team approve a multi-year written extension of the use agreement. However, the Commission indicated that the Minnesota Twins refused to sign a formal extension of the 1998 baseball use agreement, but have instead continued to play the 2004 and 2005 baseball seasons in the Metrodome according to the terms of that agreement. A written extension of the agreement would serve the interests of both the Commission and the Minnesota Twins in minimizing the chances of any financial disputes or differences of opinion.

Our audit found that the Commission and the Minnesota Twins allocated revenues for ticket receipts, concessions, and advertising in 2004 based on the prior 1998 baseball use agreement. However, we feel that it is prudent for Commission management to continue to work towards an executed agreement establishing stadium use terms and conditions. A formal agreement is important as both parties have external commitments to advertisers, suppliers, and fans.

Recommendation

- *The Commission should continue efforts to negotiate and execute a restated and extended stadium use agreement with the Minnesota Twins.*

2. The Commission did not formalize team financial commitments to pay for advertising displays intended to enhance team revenue.

The Commission did not obtain written financial commitments from the major users of the Metrodome for their use of the \$1.8 million of advertising displays installed in 2003. The Commission installed the displays to provide increased advertising revenues for the teams and also to improve presentations for those attending games. The Commission sent correspondence to the Minnesota Twins, Minnesota Vikings, and the University of Minnesota outlining its understanding of the teams' financial commitment to the project. On June 19, 2003, the Commission approved installation of the new advertising displays relying on the teams' financial commitments.

The Commission requested that each team pay an annual fee for their use of the advertising displays. The Minnesota Twins and the University of Minnesota paid the 2004 annual fee while the Minnesota Vikings only paid a portion of the fee. Future annual fee payments by the

Metropolitan Sports Facilities Commission

Minnesota Twins and Minnesota Vikings are in question. The Commission needs to obtain written commitments from facility users when it expects to assess new or increased fees.

Recommendation

- *The Commission should enter into written agreements with the teams that use the Metrodome when it anticipates new or changed fee revenues.*

Metropolitan Sports Facilities Commission

Status of Prior Audit Issues As of April 27, 2005

Most Recent Audit

The Office of the Legislative Auditor performs an annual audit of the Metropolitan Sports Facilities Commission. **Legislative Audit Report 04-21**, dated April 19, 2004, covered the year ended December 31, 2003. The audit scope included those areas material to the Commission's financial statements for the year then ended. There were no findings in the report.



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June 22, 2005

Mr. James R. Nobles
Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles

The following information is offered in response to your draft Report on Internal Control over Financial Reporting and on Compliance, dated June 15, 2005, that summarized the results of your audit of the Metropolitan Sports Facilities Commission (Commission) for the period January 1, 2004 to December 31, 2004.

Audit Finding 1:

The Metropolitan Sports Facilities Commission and the Minnesota Twins continue to operate under an expired 1998 baseball use agreement.

Audit Recommendation:

The Commission should continue efforts to negotiate and execute a re-stated and extended stadium use agreement with the Minnesota Twins.

Commission Response:

Since the end of the 2003 baseball season, the Commission has requested that the Minnesota Twins sign a multi-year written extension of the 1998 Baseball Use Agreement. The Commission offered the same terms and conditions as before, though it indicated areas in which the contract terms could be improved for the Minnesota Twins after an extension was consummated.

The Commission believes that the parties' post-expiration performance of the 1998 Baseball Use Agreement has created, by operation of law renewal of the Agreement for an additional five years, which is through the end of the 2008 season. However, the Commission agrees with the audit recommendation that it is preferable to have a written extension of the Use Agreement. Therefore, the Commission will continue to negotiate with the Minnesota Twins for an executed re-stated and extended Use Agreement.

HUBERT H. HUMPHREY
METRODOME

METROPOLITAN SPORTS
FACILITIES COMMISSION

AFFIRMATIVE ACTION/
EQUAL OPPORTUNITY
EMPLOYER

James R. Nobles
June 22, 2005
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Audit Finding 2:

The Commission did not formalize team financial commitments to pay for advertising displays intended to enhance team revenue.

Audit Recommendation:

The Commission should enter into written agreements with the teams that use the Metrodome when it anticipates new or changed fee revenues.

Commission Response:

The Minnesota Vikings have acknowledged and agreed that it will remit to the Commission the 2004 past due balance of \$49,086 that is owed with respect to their use of the advertising displays.

The Commission agrees with the audit recommendation that it should enter into written agreements whenever it creates new or changed fee revenues for the teams. The Commission is in the process of drafting an advertising agreement with the Minnesota Twins, Minnesota Vikings, and University of Minnesota that specifies the annual payment terms and conditions for their use of the advertising displays.

Sincerely,

/s/ William J. Lester

William J. Lester
Executive Director