



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Metropolitan Sports Facilities Commission

Fiscal Year Ended December 31, 2005



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.

To obtain a copy of this document in an accessible format (electronic ASCII text, Braille, large print, or audio) please call 651-296-1235. People with hearing or speech disabilities may call us through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.

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

Table of Contents

	Page
Report Summary	1
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2
Current Finding and Recommendations	4
Status of Prior Audit Issues	5
Agency Response	6

Audit Participation

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Michael Hassing, CPA, CISA	Auditor-in-Charge
John Hakes, CPA	Senior Auditor
Thom Derus	Auditor

Exit Conference

We discussed the results of the audit with the following representatives of the Metropolitan Sports Facilities Commission at an exit conference on July 17, 2006:

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

Report Summary

Key Conclusions:

- We issued an unqualified opinion on the Metropolitan Sports Facilities Commission's financial statements as of and for the year ended December 31, 2005.
- We identified one concern in our 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*.

Finding:

- The Commission has not adequately defined and documented contract terms or solicited proposals for its advertising consultant services. (Finding 1, page 4)

Audit Scope:

Audit Period:

Fiscal Year Ended December 31, 2005

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. The Commission earned approximately \$40 million in revenue and spent over \$45 million in fiscal year 2005.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

**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 (the Commission) as of and for the year ended December 31, 2005, and have issued our report thereon dated May 5, 2006. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Metropolitan Sports Facilities Commission

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 other matters that are required to be reported under *Government Auditing Standards* and which are described in the following Finding and Recommendations section as Finding 1.

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/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: May 5, 2006

Report Signed On: July 21, 2006

Current Finding and Recommendations

1. The Metropolitan Sports Facilities Commission has not adequately defined and documented contract terms or solicited proposals for its advertising consultant services.

The Metropolitan Sports Facilities Commission has maintained a long-term business relationship with an advertising consultant without a comprehensive written contract. The consultant has arranged for advertising in the Metrodome stadium since 1988. The consultant currently receives payments from the Commission based on a one-page letter agreement drafted by the consultant in June 1995 and agreed to by the executive director. For fiscal year 2005, the Commission paid the consultant \$175,929. Since it established the business relationship with the consultant, the Commission has not solicited proposals for advertising consultant services.

The 1995 letter agreement does not contain specific terms and conditions necessary to manage and monitor the business relationship between the Commission and the consultant. The letter agreement specifies an hourly fee for consulting services, and it specifies the advertising sales commission rate for new and existing advertising contracts. However, it does not define in detail the services or deliverables for which the consultant will be paid, or provide terms for how termination, indemnification, insurance, access to contractor's records, conflicts of interest, and other similar issues will be handled. According to its meeting minutes, the Commission approved the agreement with the consultant in November 1996, but has not reviewed the relationship since.

Given the monetary value, importance, and complexity of the business relationship between the Commission and the consultant, the arrangement should be based on a comprehensive written contract. A comprehensive written contract is a basic good business practice to ensure a mutual understanding of and agreement to the terms and conditions of the business relationship. It would help to mitigate the Commission's financial exposure should inadequate performance or disputes arise with the contractor. The current agreement may make it difficult for the Commission to enforce its rights in some situations, such as a decision to revise or terminate the contract.

The Commission has not handled its relationship with the advertising consultant consistent with the way it has handled other professional services contracts, such as for marketing services and legal counsel. For these services, the Commission solicited proposals and prepared comprehensive contracts with specific terms and conditions.

Recommendations

- *The Metropolitan Sports Facilities Commission should:*
 - *solicit periodic proposals for advertising consultant services;*
 - *obtain Commission approval of the selection of the advertising consultant at a public meeting; and*
 - *establish a comprehensive contract for advertising consultant services with specific terms and conditions.*

Metropolitan Sports Facilities Commission

Status of Prior Audit Issues As of May 5, 2006

Most Recent Audit

The Office of the Legislative Auditor performs an annual audit of the Metropolitan Sports Facilities Commission. **Legislative Audit Report 05-37**, dated April 27, 2005, covered the year ended December 31, 2004. The audit scope included those areas material to the Commission's financial statements for the year then ended. The report contained two findings and recommendations.

The first finding raised concern that the Commission and Minnesota Twins continued to operate under an expired use agreement. The 1998 Baseball Use Agreement expired on October 31, 2003. The Twins used the Metrodome without a signed contract for the 2004 and 2005 seasons. On February 6, 2006, Judge Porter of the Hennepin County District Court issued an order that the Twins played these last two seasons and will play the 2006 season under an implied nonwritten contract whose terms have been established by the actual conduct of the parties. The Commission followed up on that decision by providing the Twins with a comprehensive Use Agreement restating the terms established by the actual conduct of the parties over the past two seasons and by continuing to abide by those terms for 2006. The Twins have not yet signed any written agreement for 2006. The Commission continues to attempt to put the agreement of the parties into a written form and to have that writing signed by all parties.

The second finding involved the need to formalize team financial commitments to pay for advertising displays. The Commission resolved this concern.



900 SOUTH 5TH STREET
MINNEAPOLIS, MN
55415

TELEPHONE
612.332.0386

TTY
1.800.627.3529

FACSIMILE
612.332.8334

E-MAIL
MSFC@MSFC.COM

July 24, 2006

Mr. James R. Nobles
Legislative Auditor

Ms. Cecile Ferkul, CPA
Deputy Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

This letter is in response to your Report on Internal Control over Financial Reporting and on Compliance based on your audit of the Metropolitan Sports Facilities Commission (Commission) for the fiscal year ended December 31, 2005. In the Current Finding and Recommendations section of this report there is one finding: the Commission has not adequately defined and documented written contract terms or solicited proposals for its advertising consultant services. The report has three recommendations related to this finding: the Commission should solicit periodic proposals for advertising consultant services, obtain Commission approval of the selection of the advertising consultant at a public meeting, and establish a comprehensive contract for advertising consultant services with specific terms and conditions.

It is important to note that the Commission has utilized the services of its advertising consultant since 1988 and has maintained this contractual relationship based on a series of letter agreements. The Commission approved the latest letter agreement, dated June 1, 1995, in November 1996.

Although solicitation of competitive bids or proposals for professional service contracts is not required by law or by Commission policy, the Commission concurs with your recommendation and staff will solicit proposals for advertising consultant services. Staff will then submit a recommendation to the Commission and request approval for the Chair of the Commission and the Executive Director to execute a comprehensive written contract with the selected advertising consultant.

In the interim period, the Commission will execute a comprehensive written contract with its current advertising consultant that re-states and confirms all of the terms and conditions of the current contractual relationship.

HUBERT H. HUMPHREY
METRODOME

METROPOLITAN SPORTS
FACILITIES COMMISSION

AFFIRMATIVE ACTION/
EQUAL OPPORTUNITY
EMPLOYER

Sincerely,

/s/ William J. Lester

William J. Lester
Executive Director