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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Metropolitan Sports Facilities Commission

Financial Statement Audit

Year Ended December 31, 2007

October 16, 2008 **Report 08-25**

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

October 14, 2008

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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 presents the results of our audit of the Metropolitan Sports Facilities Commission's (commission) basic financial statements for the year ended December 31, 2007. 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 Jennifer Cooper.

We discussed the results of the audit with the commission on September 23, 2008. 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 October 16, 2008.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
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Report Summary

Conclusions

- The Metropolitan Sports Facilities Commission's (commission) financial statements for the year ended December 31, 2007, were presented fairly in accordance with generally accepted accounting principles in all material respects.
- Generally, the commission's internal controls for selected financial operations were adequate. However, the commission had internal control weaknesses related to the procurement of goods and services and the retirement of capital assets.
- Generally, the commission complied with the finance-related legal provisions we tested. However, the commission did not always adhere to their procurement policies.

Findings

- The commission did not consistently follow its contracting for professional services policies. (Finding 1, page 7)
- The commission did not have adequate controls to assure that its capital asset records were accurate. (Finding 2, page 8)

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 provisions.

Audit Period: The fiscal year ended December 31, 2007.

Areas Audited:
- Cash and Cash Equivalents
- 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 $48 million in revenue and spent $54 million on operations during fiscal year 2007.

Metropolitan Sports Facilities Commission

Agency Overview

The Metropolitan Sports Facilities Commission (commission) was established by legislative charter 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* Chapter 473, the commission is a self-governing body and is exempt from the finance-related rules and regulations applicable to most 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. Bill 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 our 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 $5 million in 2007. It had $48 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, nearly $9 million for the tenants' share of concession receipts, and depreciation of about $5 million.

The commission had net assets of over $39 million at December 31, 2007. Capital assets, net of depreciation, totaled about $23 million; accounts payable and other accrued liabilities of over $7 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 provisions over financial reporting:

- Were the commission's basic financial statements for the year ended December 31, 2007, fairly presented in accordance with generally accepted accounting principles in all material respects?

In addition to the financial statements objective, we considered 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 provisions?

- 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?

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 of the United States, except that we did not issue this report within 60 days of the issuance of our audit opinion.[2] 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, 2007, were fairly presented in accordance with generally accepted accounting principles in all material respects.

Generally, the commission's internal controls were adequate. However, as explained in the following findings, the commission had weaknesses in its internal controls related to its application of contracting policies and its disposition of capital assets. We consider these weaknesses to be significant control deficiencies.[4] 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.

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

[2] In order to provide timely communication about internal control or compliance issues identified in our audit of the Metropolitan Sports Facilities Commission's financial statements, audit standards require that we issue this report within 60 days of our release of our audit opinion to the commission. We released our audit opinion to the commission on June 19, 2008, and should have issued this report by August 18, 2008. We were unable to issue this report by that date due to our internal review process and not related to any actions of the commission.

[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 the auditing standards, a control deficiency is significant if there is more than a remote likelihood that a consequential misstatement to the financial statements could occur and not be prevented or detected by the commission's internal control.

Findings and Recommendations

Finding 1

The Metropolitan Sports Facilities Commission did not consistently follow its contracting for professional services policies.

In 2007, the commission awarded two contracts for financial consulting services without completing a request for proposal or inviting responses, as required by commission policies for professional services.[5] These policies also require that if the contract for professional services is estimated to exceed $50,000, the commission shall authorize the contract at a board meeting.

In 2007, the commission authorized the chairman and executive director to enter into contracts for consultants to explore options for the future use or replacement of the existing stadium. The commission awarded multiple contracts for this purpose. Even though the commission authorized and approved the contracts, the commission did not always follow its contracting policy for initiating contracts.

For one contract, the commission obtained services from a vendor during 2007 that totaled $71,473. The commission did not prepare a request for proposal or invite quotes from other vendors. The commission considered the vendor to be a sole-source for the type of services provided. The commission did not, however, document its determination of the sole-source status.

For the second contract, the commission did not invite quotes from other vendors because it initially estimated costs would not exceed $50,000. However, in 2008, the commission extended the scope of the work, and the total services exceeded $50,000. The commission established another contract with the same vendor without a request for proposal or obtaining responses from other vendors.

In addition, the commission allowed some vendors to perform services before a contract or purchase order was completed and authorized. In three of the twenty administrative expense transactions tested, vendors performed services between six and forty-eight days before a contract or purchase order was completed and authorized. The commission's procurement and contract policies[6] 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.

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[5] Metropolitan Sports Facilities Commission Policies Article VIII, Sections 3-5.
[6] Metropolitan Sports Facilities Commission Policies Article VII, Section 6.

Recommendations

- *The commission should follow its professional services contract policies to assure that the public's interests are protected and the best price possible is being obtained for the services provided.*

- *The commission should follow its procurement and contract policies to assure that purchase orders and contracts are completed and approved prior to the performance of services.*

Finding 2

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

The commission performed 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 2007 physical inventory, commission staff was unable to locate 117 of the 613 selected items. While most of the unlocated assets had low values and were insignificant to the financial statements, they were assets acquired with public funds for which the commission is accountable. However, three of the unlocated assets, with a total value of $3,959, were not properly disposed of and were not removed from the asset accounts, resulting in an overstatement of the commission's capital assets.

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 is that a *Fixed Asset Disposal or Transfer Form* should be completed when disposing of an asset or before moving an asset to another location. For three of the five capital assets tested, the commission prepared asset disposal forms after it identified missing assets while performing its periodic inventory, in order to correct the fixed asset records. If adequate asset records are not maintained, the financial statements could be overstated for assets that are no longer in use and have not been properly retired. The commission is responsible for the physical custody and financial accountability of its capital assets. Without an accurate inventory process, there is an increased risk of undetected recording errors and loss of assets.

Recommendation

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

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October 10, 2008

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Dear Mr. Nobles,

This letter is in response to your financial statement audit report of the Metropolitan Sports Facilities Commission (Commission) for the fiscal year ended December 31, 2007. In the Findings and Recommendations section of this report there were three recommendations:

- #1 The Commission should follow their professional services contract policies to assure that the public's interests are protected and the best price possible is being obtained for the services provided.
- #2 The Commission should follow their procurement and contract policies to assure that purchase orders and contracts are completed and approved prior to the performance of services.
- #3 The Commission should ensure its accountability of all capital assets in accordance with their policies and procedures.

It is important to note that the two contracts mentioned in Finding 1 were initially estimated to be less than $50,000 so the Commission did not solicit competitive bids or proposals for these services. The Commission signed an engagement letter with each contractor for services related to the Metrodome Next project. Then as the project progressed and additional services were needed the Commission approved and executed a professional service agreement with each contractor. The Commission concurs with recommendation #1 and will solicit proposals for professional service contracts when required by its procurement policies. The Commission also concurs with recommendation #2 and will complete and approve purchase orders and contracts prior to the performance of services.

In Finding 2 the audit report did not mention that only three of the 117 assets that were not inventoried had a net book value greater than $0. The net book value of the

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three assets was $3,959. Subsequent to the audit field work, the Commission located several of the assets that were not inventoried including one of the three assets whose net book value was greater than $0. The net book value of this asset was $1,102.

Annually the Commission performs a partial physical inventory of its capital assets. This procedure verifies the existence of its assets. Assets that are not located during the physical inventory process then are removed from inventory. The Commission has consistently followed this practice to maintain control over its assets. The Commission concurs with recommendation #3 and will continue to account for its capital assets in accordance with its policies and procedures.

Sincerely,

William J. Lester

William J. Lester