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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota Amateur Sports Commission
July 1, 2001, through June 30, 2005



May 18, 2006

06-13

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.

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OFFICE OF THE LEGISLATIVE AUDITOR

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Members of the Legislative Audit Commission

B.T. “Tom” Duffy, Chair
Minnesota Amateur Sports Commission

Members of the Minnesota Amateur Sports Commission

Paul Erickson, Executive Director
Minnesota Amateur Sports Commission

We conducted an audit of the Minnesota Amateur Sports Commission for the period July 1, 2001, through June 30, 2005. Our audit scope included the construction of the sport event center, the operations of the National Youth Golf Center, and payroll and grant expenditures. Our objectives focused on the commission’s compliance with applicable legal provisions.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank staff from the Minnesota Amateur Sports Commission and the National Sports Center Foundation for their cooperation during this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: February 24, 2006

Report Signed On: May 15, 2006

Minnesota Amateur Sports Commission

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Audit Participation

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
David Polisenno, CPA, CISA, CFE	Audit Manager
Laura Peterson, CPA	Auditor-in-Charge
Jennifer Chapin	Auditor
David Westlund	Auditor

Exit Conference

We discussed the results of the audit with the following representatives of the Minnesota Amateur Sports Commission at an exit conference on May 5, 2006:

Paul Erickson	Executive Director
Lynda Lynch	Fiscal Coordinator

Minnesota Amateur Sports Commission

Report Summary

Overall Conclusion:

The Minnesota Amateur Sports Commission complied with material finance-related legal provisions. However, we identified two findings that need to be addressed by the commission.

Findings:

- The commission has not been conveyed title from the National Sports Center Foundation, a nonprofit organization, for land it purchased through the foundation. (Finding 1, page 9)
- The commission did not adequately segregate key financial duties. (Finding 2, page 12)

This report contains two findings related to internal control and legal compliance. The commission substantially resolved three prior audit findings and implemented the three recommendations from a prior OLA special review.

Audit Scope:

Audit Period:

July 1, 2001, through June 30, 2005

Programs Audited:

- Sport Event Center Expenditures
 - National Youth Golf Center Operations
 - Payroll and Grant Expenditures
-

Agency Background:

The Minnesota Amateur Sports Commission provides strategic direction to the state's amateur sports community in order to increase the state economic benefits from amateur sports. The commission accomplishes this by increasing sport opportunities and supporting facility improvement. In addition to its general operating appropriation, the commission received appropriations for various grants and the construction of a sport event center.

Minnesota Amateur Sports Commission

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Minnesota Amateur Sports Commission

Chapter 1. Introduction

The Office of the Legislative Auditor selected the Minnesota Amateur Sports Commission for audit based on an annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

Agency Overview

The 1987 Legislature established the Minnesota Amateur Sports Commission, which operates under *Minnesota Statutes*, chapter 240A. The commission provides strategic direction to the state's amateur sports community in order to increase the state economic benefits from amateur sports. The commission accomplishes this by increasing sport opportunities and supporting facility improvement.

Statutory guidelines establish the commission's membership. The commission consists of 14 voting members and 4 nonvoting members. Four of these members must be 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 the chair of the commission, and the commission appoints the executive director. Paul Erickson was appointed as the commission's first executive director in September 1987 and continues to serve in that capacity.

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 commission established and directs the National Sports Center Foundation, a nonprofit organization created by the commission, to operate the National Sports Center's facilities. In addition to operating the facilities, the foundation 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 financial activity of the commission for fiscal years 2002 through 2005.

Minnesota Amateur Sports Commission

Table 1-1
Sources and Uses of Funds
Budget Fiscal Years 2002 through 2005

Sources	2002	2003	2004	2005
General Fund Appropriations:	\$1,407,000	\$1,427,000	\$1,275,000	\$1,275,000
Reverted General Fund Appropriations	(60,000)	(60,000)	(5,000)	
Capital Projects Appropriations:	690,000	5,000,000		
Gifts Received			5,000	11,482
Balance Forward In		2,065	79,085	988
Transfer In ^(Note 1)		77,757		
Total Sources	\$2,037,000	\$6,446,822	\$1,354,085	\$1,287,470
Uses				
Payroll	\$ 510,284	\$ 478,042	\$ 361,410	\$ 288,776
Grants ^(Note 2)	1,440,000	750,000	750,000	750,000
National Sports Center Foundation ^(Note 3)		4,875,394		
Other	84,650	114,557	16,687	5,252
Total Expenditures	\$2,034,935	\$6,217,993	\$1,128,097	\$1,044,028
Encumbrance ^(Note 3)		\$ 124,744		
Balance Out	\$ 2,065	79,085	\$ 988	\$ 18,442
Cancelled ^(Note 4)		25,000	225,000	225,000
Total Uses	\$2,037,000	\$6,446,822	\$1,354,085	\$1,287,470

Note 1: The commission received a \$77,757 grant from the Department of Administration's Office of Technology for small agency infrastructure. The commission used the money to upgrade its computer hardware and software.

Note 2: In addition to the grants paid from budget fiscal years 2002 through 2005, the commission disbursed an additional \$750,000 for ice arena grants appropriated prior to budget fiscal year 2002. Table 4-1 shows all grants disbursed during the audit period on a cash basis.

Note 3: The commission paid the National Sports Center Foundation for the construction of the sport event center; \$124,606 of the encumbrance amount for fiscal year 2003 is for the completion of the center.

Note 4: The appropriation law for the commission's 2004 and 2005 operating budget included a provision that \$225,000 each year may only be spent up to the amount of offsetting revenue the commission generated as allowed by the commission's statute. The commission did not generate any revenue and thus cancelled \$225,000 both years.

Source: Minnesota Accounting and Procurement System (MAPS) based on the budgetary year basis as of December 31, 2005.

Audit Approach

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the commission's internal controls relevant to the audit objectives. We used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission. The standards also require that we plan the audit to provide reasonable assurance that the commission complied with financial-related legal provisions that are significant to the audit. In determining the department's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

Minnesota Amateur Sports Commission

To meet the audit objectives, we gained an understanding of the commission's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the commission's compliance with laws, regulations, contracts, and grant provisions.

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Chapter 2. National Sports Center Foundation

Chapter Conclusions

The Minnesota Amateur Sports Commission ensured that the National Sports Center Foundation complied with the legal provisions related to the construction of the sport event center and the operation of the National Youth Golf Center. However, the commission has not been conveyed title to a property on a timely basis, as discussed in Finding 1. Finally, as discussed in Chapter 3 Finding 2, the commission did not adequately segregate key financial duties.

Audit Objectives

Our audit of the commission's oversight over the National Sports Center Foundation focused on the following questions:

- Did the commission ensure that the National Sports Center Foundation complied with applicable legal provisions in the construction of the sport event center?
- Did the commission ensure that the National Sports Center Foundation operated the National Youth Golf Center in compliance with relevant legal provisions?

Background Information

Minnesota Statutes, 240A.03, subd. 13, empowers the commission to establish nonprofit corporations and charitable foundations. The commission contracted with the National Sports Center Foundation, a nonprofit organization, to operate the National Sports Center facilities. In addition to operating the facilities, the foundation managed the construction of new facilities.

Sport Event Center

In 2000, the Minnesota Legislature appropriated \$300,000 to the commission to design a sport event center on the National Sports Center campus. We reviewed the use of the \$300,000 appropriation during our prior audit. In 2003, the Legislature appropriated \$5 million to construct the sport event center. The National Sports Center Foundation solicited private funds to cover the remaining costs of construction. Our current audit focused on the use of the \$5 million state appropriation. Since the completion of the sport event center in 2005, the center has hosted both private and public events. The contract between the commission and the foundation restricts the private use of the event center to five percent of the center's total useful hours.

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National Youth Golf Center

In April 1998, the Minnesota Legislature appropriated \$3.1 million to the commission to develop the National Youth Golf Center. In addition to the \$3.1 million, the National Sports Center Foundation, local governments, and private sponsors contributed \$5.5 million for the development of the golf center. The putting course opened in 2000, and the foundation completed construction of the 18-hole golf course and driving range in April 2005. During the 2005 golf season, the National Youth Golf Center customers played nearly 22,000 rounds of golf. In February 2003, we reviewed the commission's use of the \$3.1 million appropriation. As a follow up to that review, we verified the commission and foundation operated the golf center in accordance with that appropriation law.

According to the law, the primary purpose of the golf center is to serve youth of 18 years and younger. To accomplish this, the foundation established a tee time reservation policy that favors the youth. Youth can reserve a tee time seven days in advance, and youth that golf with an adult can reserve a tee time five days in advance. Adults that golf without a youth can reserve tee times 24 hours in advance.

The foundation also gave youth golfers significant discounts on green fees. For example, adults paid \$37 for 18-holes, while youth paid between \$13 and \$19, depending on their age. The law also required that the commission charge market rates for adults. To determine the market rate for 9 and 18-holes of golf, the foundation conducted a survey of ten golf courses in the surrounding area. For 9-holes of golf, the green fees ranged from \$15 to \$25, and the foundation charged its adult customers \$20. For 18-holes, the fees ranged from \$28 to \$42, and the foundation charged \$37.

During the 2005 golfing season, the foundation gave its employees and sponsors certain golfing privileges. The foundation allowed employees to play at no charge before and after work as long as they did not displace paying customers. This was consistent with the practices of surrounding golf courses, including municipal courses. The foundation also gave its sponsors certain golfing benefits. For example, sponsors could host one event at the National Youth Golf Center each year during the off season at reduced green fees. The sponsors also receive a limited number of passes for free rounds of golf during the post and pre seasons.

Sod Farmland Property

In April 1998, the Minnesota Legislature appropriated \$1.7 million to the commission to purchase and develop land adjacent to the National Sports Center for use as athletic fields. The foundation purchased a 75-acre sod farm adjacent to the sports center and closed on the sale in April 1999. The commission purchased the property through its foundation and reimbursed the foundation for the cost of the property.

During the 2005 Legislative Session, the Legislature amended the appropriation law¹ to allow the commission to lease up to 20 percent of the land as long as the use provided some benefit to

¹ *Laws of Minnesota* 2005, Chapter 20, Article 1, Section 40.

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amateur sports. The amended law also expanded the use of the property to include any amateur sport and not just golf. As of the end of fieldwork, February 24, 2006, the commission had not yet developed the land. Once developed, the commission will fund its operations (up to \$300,000 annually) through lease rentals on the property.

Finding and Recommendation

1. The commission has not been conveyed title on a land parcel on a timely basis.

The foundation has not conveyed the title of the 75-acre sod farm property to the state of Minnesota on a timely basis. The commission board members passed a resolution in May 2003 requiring the development of the land before conveying title to the commission. At the time of this resolution, the commission and the foundation planned to develop a 9-hole golf learning center and 12 soccer fields on the property. The commission said it would be better for the foundation to hold the title until the foundation developed the property. However, after the Legislature amended the law in 2005, the commission changed its plans for the property to include some leased retail space, which it plans to develop itself. Because the sod farm is completely paid for and the commission now intends to develop at least a portion of the land, the commission should proceed to have the title of the property conveyed to the Minnesota Amateur Sports Commission. In order to better safeguard and account for this state asset, the commission should hold title to the land it owns.

Recommendation

- *The commission should direct the foundation to convey the title on the land parcel to the state.*

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Chapter 3. Payroll Expenditures

Chapter Conclusions

The Minnesota Amateur Sports Commission accurately recorded its payroll expenditures in the state's accounting systems. However, the commission did not adequately separate key financial responsibilities, including the personnel and payroll functions, as discussed in Finding 2.

For the items tested, the commission complied with the applicable bargaining agreements, compensation plans, and per diem legal provisions.

Audit Objectives

Our review of the commission's payroll expenditures focused on the following questions:

- Did the commission accurately record the payroll expenditures in the state's accounting systems?
- For the items tested, did the commission comply with the employee bargaining agreements and compensation plans when it compensated its employees?
- Did the commission pay per diems to its board members in accordance with the applicable legal provision?

Background

At the beginning of the audit period, the Minnesota Amateur Sports Commission employed eight permanent employees. As of January 2006, the commission reduced its workforce to three permanent employees due to legislative budget cuts. The layoff of permanent employees resulted in higher than normal separation expenses identified in Table 3-1. During the audit period, the commission employees belonged to the American Federation of State, County, and Municipal Employees (AFSCME); the Minnesota Association of Professional Employees (MAPE); and the Commissioner's and Managerial Plans.

The commission paid its board members per diems for attending commission meetings and activities. *Minnesota Statutes*, Section 15.0575, Subd. 3, allows commission members to receive a \$55 per diem for each day they spend on board-related activities. Table 3-1 shows the detail of the payroll and per diem expenditures for fiscal years 2002 through 2005.

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**Table 3-1
Payroll and Per Diem Expenditures
Budget Fiscal Years 2002 through 2005**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Payroll				
Salary & Fringe Benefits	\$498,695	\$467,845	\$327,920	\$284,759
Separation Expense	1,805	1,722	18,122	758
Unemployment Compensation			10,371	
Workers Compensation	379	292	322	289
Per Diem Payments ^(Note 1)	<u>9,405</u>	<u>8,183</u>	<u>4,675</u>	<u>2,970</u>
Total	<u>\$510,284</u>	<u>\$478,042</u>	<u>\$361,410</u>	<u>\$288,776</u>

Note 1: The commission paid board members pursuant to *Minnesota Statutes*, Section 15.0575. The commission chair received 46 percent of the total per diems.

Source: Minnesota Accounting and Procurement System as of December 31, 2005.

Finding and Recommendation

2. The commission did not adequately segregate key financial responsibilities in its payroll and personnel functions and disbursement functions.

One commission employee performed incompatible duties in two of its operations without the commission establishing mitigating controls.

- One commission employee performed the personnel and payroll functions. The employee processed the personnel transactions, entered the bi-weekly payroll transactions, and maintained the records. No one at the commission reviewed the employee's work.
- The same employee performed the procurement and disbursement functions. The employee purchased the goods or services and processed the payments. No other commission employee reviewed the work.

Generally, key duties and responsibilities need to be divided among different people. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. Since the commission has only three employees, assigning these functions to separate staff may not be feasible. Therefore, the commission needs to establish mitigating controls, such as independently reviewing the transactions processed by the employee, to reduce the risk of errors and fraud.

Recommendation

- *The commission should either separate key financial duties or establish mitigating controls.*

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Chapter 4. Grant Expenditures

Chapter Conclusions

The Minnesota Amateur Sports Commission complied, in all material respects, with the significant finance-related legal provisions concerning grant expenditures. However, as noted in Chapter 3, Finding 2, the commission did not adequately segregate key financial responsibilities.

Audit Objective

Our review of the commission's grant expenditures focused on the following question:

- For the items tested, did the commission comply, in all material respects, with the significant finance-related legal provisions concerning grant expenditures?

Background

The Minnesota Amateur Sports Commission had the authority to establish grants as part of its mission to promote the economic and social benefits of sports. Table 4-1 shows the grant payments the commission made during the audit period.

Table 4-1
Summary of Grant Disbursements
Cash-Basis Fiscal Years 2002 through 2005

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General Fund Disbursements				
Target Center Lease	\$750,000	\$750,000	\$750,000	\$750,000
Ice Center Grants (Mighty Ducks Grants)		250,000	125,000	
Capital Projects Fund Disbursement				
Ice Center Grants (Mighty Ducks Grants)		50,000	275,000	50,000
Giants Ridge Facility		690,000		
Total Grants Disbursements	<u>\$750,000</u>	<u>\$1,740,000</u>	<u>\$1,150,000</u>	<u>\$800,000</u>

Note: The commission did not disburse any Mighty Ducks grants in 2002 since the commission had not awarded the last round of grantees until March 2002. The commission paid the last grantee in July 2004.

Source: Minnesota Accounting and Procurement Systems (MAPS) based on the cash year basis as of December 31, 2005

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Target Center Lease

Pursuant to *Minnesota Statutes*, 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 Target Center. The same statute allows the commission to sell the usage dates at the Target Center to third parties, although the commission has never done so.

Since March 1, 1995, the Minnesota Amateur Sports Commission entered into a contract agreement with the Metropolitan Sports Facilities Commission and several third party contractors that allowed 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 the use of the Target Center, such as the scoreboard system electricity, the sound system and announcer, the arena lighting system, and cleaning and restocking the arena restrooms during the use period. Minnesota Amateur Sports Commission officials stated that these incremental costs make using the Target Center expensive as compared to other venues in the Twin Cities area. As a result of these prohibitive costs, the commission decided it was not cost-beneficial to use the Target Center and thus did not take advantage of the agreement during the audit period.

“Mighty Ducks” Ice Arena Grants

In 1995, the Minnesota Amateur Sports Commission initiated the Mighty Ducks Grant Program because of a 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 appropriated \$17,685,000 for this specific purpose. For the fiscal years 1995 through 2005, the commission spent \$17,566,888 from these appropriations for new and renovated hockey arenas. The commission canceled the remaining \$118,112. The commission awarded a majority of these grants between 1995 and 1998 with approximately 79 percent of the funds granted to new arena development.

Minnesota Statutes, Section 240A.09, provides guidelines for awarding ice arena construction and renovation grants. According to the statute, communities were eligible for up to \$250,000 for the development of each new sheet of ice and \$100,000 for the renovation of each existing ice arena. The commission further limited the renovation grant amount to \$50,000. In order to receive a grant for a new arena, applicants had to match the state funds by contributing land, roadway access, utilities services, landscaping, and parking. Applicants for renovation grants had to match the state funds by at least a 1:1 ratio.

The Mighty Ducks grant applicants for this audit period were applicants that the commission previously denied. When grant funds became available, the commission asked these previous applicants to update their grant applications. A committee of commission members rated all incoming applications 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.

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Giants Ridge Facility

In 1998 the Minnesota Legislature appropriated \$690,000 to the Minnesota Amateur Sports Commission for the Giants Ridge Facility. The legislation stated that the grant was for the Iron Range Resource and Rehabilitation Board to enhance the Giants Ridge cross-country ski event facility. In 2002, due to budget constraints, the Legislature changed the grant funding source from the General Fund to the Capital Projects Fund.

The commission was responsible for making sure the funds were spent on the project. After the Iron Range Resource and Rehabilitation Board incurred sufficient costs to cover the \$690,000 grant, the commission reimbursed the board the full grant amount. The Giants Ridge project was completed in 2003.

There were no findings as a result of the work done in this area.

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Status of Prior Audit Issues As of February 24, 2006

Legislative Audit Report 02-54, issued in August 2002, covered the three fiscal years ending June 30, 2001. The audit scope included grant, payroll, and other administrative expenditures along with the commission's relationship with its foundations and other organizations. The report contained three audit findings, and the commission substantially resolved those findings.

Legislative Audit Report 03-07, issued in February 2003, was a special review of the commission's use of the funds appropriated in 1998 to purchase and develop land for athletic fields and to develop the National Youth Golf Center. As a result of that review, we recommended the commission give greater weight to the "letter of the law" when implementing appropriations, report back to the legislative committees when there are significant changes in projects, and establish stronger accounting controls. Based on our current audit, the commission implemented these recommendations.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Minnesota Amateur Sports Commission

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May 9, 2006

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
140 Centennial Building
658 Cedar Street
St. Paul MN 55155-1603

Dear Mr. Nobles:

In response to your audit report of the Minnesota Amateur Sports Commission for the period of July 1, 2001 to June 30, 2005, I am providing some clarification and background.

In response to the finding regarding the land transfer:

We agree that it is now timely to convey the title to the commission. However, the work of both the 2005 and 2006 legislature needed to be completed before it became practical to complete the transfer. The MASC will now proceed to complete the transaction in the near future. The Executive Director will provide direction in implementing the conveyance by September 1, 2006.

In response to the second finding on the separation of duties.

We, like many small agencies have a challenge to have several individuals involved in the various accounting and payroll functions – especially now that the MASC has only three employees. We will further evaluate and develop a feasible plan to make improvements in this area. Lynda Lynch and Barclay Kruse will review and develop appropriate procedures that provide better oversight for the various accounting/payroll areas by September 1, 2006.

In general, we are pleased to once again have a report that confirms that the MASC funds and grants were expended properly and for their intended purpose.

Thank you for the ongoing efforts of your staff in working in partnership with our agency staff.

Sincerely,

/s/ B.T. Tom Duffy

/s/ Paul D. Erickson

B.T. “Tom” Duffy
Chair

Paul D. Erickson
Executive Director

MINNESOTA AMATEUR SPORTS COMMISSION

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