O L A
OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Minnesota Sports Facilities Authority

Financial Statement Audit

For the Five-Month Period Ended December 31, 2012

October 17, 2013 **Report 13-25**

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October 17, 2013

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Michele Kelm-Helgen, Chair
Minnesota Sports Facilities Authority

Members of the Minnesota Sports Facilities Authority

Mr. Ted Mondale, CEO/Executive Director
Minnesota Sports Facilities Authority

In auditing the Minnesota Sports Facilities Authority's basic financial statements for the five-month period ended December 31, 2012, we considered internal controls over financial reporting. We also tested compliance with significant legal provisions impacting the basic financial statements. This report contains our findings and recommendations on internal controls and compliance over the Authority's financial reporting process taken as a whole, as well as other matters. However, given the limited nature of our audit work, we do not express an overall opinion on the effectiveness of the Authority's internal controls or compliance. In addition, our work may not have identified all significant control deficiencies or instances of noncompliance with legal requirements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, except that we did not issue this report within 60 days after the release of our financial statement audit opinion.[1] The audit was conducted by Jim Riebe, CPA, (Audit Manager) and Carl Otto, CPA, CISA (Auditor-in-Charge), assisted by auditors Joe McMahon, CPA, and Abdul Suleyman, CPA.

[1] Audit standards require us to issue this report within 60 days after our audit opinion date (by August, 27, 2013) to provide timely communication about internal controls and compliance issues identified in our audit of the Minnesota Sports Facilities Authority. We did not issue this report by that date because we were obtaining additional information necessary to understand the statutory requirements for admission taxes. The delay was not related to any actions of the Authority.

We consider the internal control deficiency described in Finding 1 to be a significant deficiency. A significant deficiency is a deficiency in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.[2] Finding 2 does not have a direct and material effect on the financial statements, but addresses another matter related to the Authority's internal controls.

We discussed the results of the audit with the Minnesota Sports Facilities Authority at an exit conference on September 26, 2013. 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 an integral part of our audit of the financial statements of the Minnesota Sports Facilities Authority in considering its internal controls over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

James R. Nobles	Cecile M. Ferkul, CPA, CISA
Legislative Auditor	Deputy Legislative Auditor

[2] A material weakness is a significant deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any material weaknesses in internal control.

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Report Summary

Conclusion

The Minnesota Sports Facilities Authority's financial statements for the five-month period ended December 31, 2012, were fairly presented in all material respects. However, the Minnesota Sports Facilities Authority had some weaknesses in internal controls.

Findings

- The Minnesota Sports Facilities Authority did not properly classify some nonoperating revenues and expenses in the financial statements it submitted to us for audit. (Finding 1, page 3)
- The Minnesota Sports Facilities Authority had not ensured that the concession vendor's underlying receipt and expense transactions supported its reported net profit. (Finding 2, page 4)

Audit Scope

We audited the Minnesota Sports Facilities Authority's basic financial statements for the five-month period from August 2012 (when the Authority was created) through December 31, 2012. We also audited the Authority's internal controls and compliance with selected finance-related legal requirements.

Background

The Minnesota Sports Facilities Authority assumed responsibility for operating the Metrodome from the former Metropolitan Sports Facilities Commission in August 2012. The Authority's operations are governed by *Minnesota Statutes* 2012, 473J. The Authority, in consultation with the Minnesota Vikings, is also responsibility for constructing and operating a new football stadium. The stadium will be financed with $477 million from the Minnesota Vikings, $348 million from the State of Minnesota, and $150 million from the City of Minneapolis. Construction of the new stadium is scheduled to occur from 2014 into 2016.

Findings and Recommendations

Finding 1

The Minnesota Sports Facilities Authority did not properly classify some nonoperating revenues and expenses in the financial statements it submitted to us for audit.

The Minnesota Sports Facilities Authority incorrectly classified about $833,000 it spent from contributions received from the Minnesota Vikings to plan for the construction of the new football stadium.[1] The Authority incorrectly reported the contribution and expenses as operating income and expenses, but did identify the expenses as stadium planning expenses. Generally accepted accounting principles require that only the principal ongoing operations of an entity should be reported as operating income and expenses, and that other financial activity should be classified as nonoperating.[2]

In the Authority's notes to the financial statements (Note 1, Section C), the Authority described its principal ongoing operations as follows:

> The principal operating revenues of the Authority's enterprise fund are: concession revenues, admission taxes, rent, and charges for services. Operating expenses include concession costs, tenants' share of concession receipts, facilities cost credit, personal services, professional services, contractual services, supplies, repairs and maintenance, utilities, insurance, event-related expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

In the future, the Authority will receive additional contributions for the construction of the new stadium.[3] Because some of those contributions and related expenses may also need to be reported as nonoperating activity, it is important to establish financial reporting practices that comply with generally accepted accounting principles for that activity. For a period during the construction of the new football stadium, the Authority may have little financial activity related to its principal operations (operating the facility).

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[1] The 2012 financial statements were the Authority's first reporting period after it took over operation of the Metrodome from the Metropolitan Sports Facilities Commission in August 2012.
[2] Governmental Accounting Standards Board's 2012 *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2200, paragraph 192.
[3] *Minnesota Statutes* 2012, 473J.15, subd. 2 (a), and 473J.11, subd. 4 (b), require the following contributions to fund the new stadium: Minnesota Vikings - $477 million; State of Minnesota - $348 million; City of Minneapolis - $150 million.

The Authority accepted our proposed audit adjustment and reclassified the contribution and related expenses in the financial statements as nonoperating activity.

Recommendation

- *The Minnesota Sports Facilities Authority should ensure that it properly classifies nonoperating financial activity in future financial statements.*

Finding 2

The Minnesota Sports Facilities Authority had not ensured that the concession vendor's underlying receipt and expense transactions supported its reported net profit.

The Authority had not verified that the underlying financial activity of the vendor who managed concession operations at the Metrodome supported the net profit it reported. The contract with the concession vendor requires it to pay 95 percent of its net profit to the Authority. The Authority's staff verified the accuracy of certain revenue and expense reports provided by the vendor's operations controller and vendor's corporate office. However, the analytical procedures performed would not detect discrepancies between the reported net profit and the underlying financial transactions because those procedures relied on the vendor's unverified information. Discrepancies could result in lost profit to the Authority. For the five-month period ending December 31, 2012, the Authority received about $4.4 million in net profit from the vendor.

Recommendation

- *The Minnesota Sports Facilities Authority should verify, on a periodic basis, that the concession vendor's underlying revenue and expense records support the vendor's reported net profit.*

Minnesota Sports Facilities Authority
900 South 5th Street, Minneapolis, MN 55415

October 11, 2013

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

Dear Mr. Nobles:

Thank you for the audit work your staff performed on the Minnesota Sports Facilities Authority's (Authority) internal controls and compliance. We are committed to providing accurate financial reporting information and strive to maintain strong internal controls.

The following details our responses to the two findings in your report on internal controls and compliance.

Finding 1
The Minnesota Sports Facilities Authority did not properly classify some nonoperating revenues and expenses in the financial statements it submitted to us for audit.

Recommendation
The Minnesota Sports Facilities Authority should ensure that it properly classifies nonoperating financial activity in future financial statements.

Response
We agree with the audit recommendation. In the initial draft of the basic financial statements that was presented to the Office of the Legislative Auditor (OLA) for the five month fiscal period ended December 31, 2012, we had separately reported the other contribution from the Minnesota Vikings of $833,181, which was reimbursement of the stadium planning expenses, and the stadium planning expenses as operating revenues and expenses, respectively. We reported these transactions as operating activity due to the nature and type of expenses that were incurred, and we considered construction of the new stadium to be part of the Authority's operations. In Note 1 Section A to the financial statements, in the description of the reporting entity, we stated "The Authority was created to provide for the construction, financing, and long term use of a new stadium and related stadium infrastructure as a venue for professional football and a broad range of other civic, community, athletic, educational, cultural and commercial activities."

After the OLA audit staff inquired about our policy in the notes to the financial statements that defined operating revenues and expenses, Note 1 Section C, we performed further research regarding the definition of operating activity. Based on our research of certain Governmental Accounting Standards Board Statements (GASB), specifically GASB Statement No. 9, paragraphs 16 through 29 and GASB Statement No. 34, paragraph 102, as well as the 2012 GAAFR Governmental Accounting Auditing, and Financial Reporting, we found that "There is no authoritative definition of what constitutes operating revenue or operating expense. Each government must disclose the basis on which it distinguishes operating from nonoperating items"[1]. Based on this additional research and our definition of operating revenues and operating expenses in Note 1 Section C to the financial statements, we reclassified the 2012 contribution and the stadium project expenses as nonoperating activity in the financial statements

For fiscal years 2013 through 2016, we will review our policy that defines operating revenues and expenses and determine whether construction of the new stadium is part of our principal operations and whether revenues and expenses related to construction of the new stadium are appropriately defined as operating or nonoperating activity. The Authority will then determine if it needs to modify its policy that defines operating revenue and operating expenses.

[1] Gauthier, Stephen J. (2012). GAAFR Governmental Accounting, Auditing, and Financial Reporting, page 235. Government Finance Officers Association.

Minnesota Sports Facilities Authority
900 South 5th Street, Minneapolis, MN 55415

James R. Nobles
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Finding 1 (continued)
Person Responsible: Mary Fox-Stroman, Director of Finance
Implementation Date: February 1, 2014

Finding 2
The Minnesota Sports Facilities Authority had not ensured that the concession vendor's underlying receipt and expense transactions supported its reported net profit.

Recommendation
The Minnesota Sports Facilities Authority should verify, on a periodic basis, that the concession vendor's underlying revenue and expense records support the vendor's reported net profit.

Response
We agree with the recommendation. In 2012 the Authority created financial policies and procedures and established internal controls for the new organization. The decision to implement certain internal controls was made based on a cost benefit analysis. Due to the Authority's limited staff in the finance department we decided to review and analyze the concessionaire's monthly revenue and expense reports for accuracy and reasonableness, we frequently asked the concessionaire to provide more information regarding the reported revenue and expense transactions, and we maintained a spreadsheet that reports the monthly and year-to-date revenue and expense totals for concessions, plaza concessions, and catering.

We will perform certain testing procedures to verify the underlying 2013 revenue and expense transactions that are reported by the concessionaire and that support the reported net profit. We agree that these additional procedures will enhance the internal controls over the concession operation.

Person Responsible: Mary Fox-Stroman, Director of Finance
Implementation Date: December 31, 2013

Thank you for your time and effort on this audit.

Sincerely,

Ted Mondale
CEO/Executive Director

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