



Minnesota Sports Facilities Authority

Internal Controls and Compliance Audit

January 2016 through March 2017

March 28, 2018
REPORT 18-04

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

March 28, 2018

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Members of the Legislative Audit Commission

Mr. Michael Vekich, Chair
Minnesota Sports Facilities Authority

Members of the Minnesota Sports Facilities Authority

Mr. James Farstad, Interim Executive Director
Minnesota Sports Facilities Authority

This report presents the results of our internal controls and compliance audit of the Minnesota Sports Facilities Authority for the period January 1, 2016, through March 31, 2017. The objectives of this audit were to determine if the Authority had adequate internal controls to ensure compliance, and if the Authority complied with selected provisions of the Stadium Use Agreement; Pre-Opening Services Agreement; and the Food and Beverage, Catering, and Concession Agreement.

This audit was conducted by Scott Tjomsland, CPA, CISA (Audit Director); Zach Yzermans, CPA (Auditor-in-Charge); Scott Dunning, CPA (Senior Auditor); and Michelle Bilyeu (Senior Auditor).

We received the full cooperation of the Authority's staff while performing this audit.

Sincerely,

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

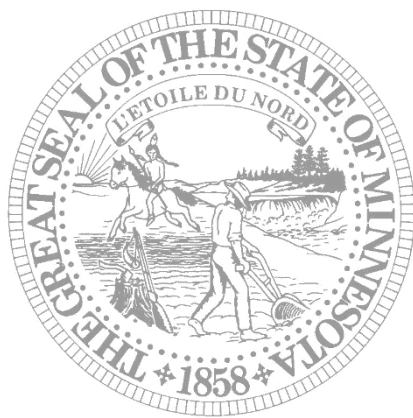
Handwritten signature of Christopher P. Buse in black ink.

Christopher P. Buse
Deputy Legislative Auditor



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Report Summary

In 2012, the Legislature established the Minnesota Sports Facilities Authority (Authority) as part of the law authorizing the State of Minnesota and City of Minneapolis to construct a new stadium for the Minnesota Vikings. The Authority oversaw the design and construction of the new stadium, now known as U.S. Bank Stadium. The Authority owns the stadium and is responsible for its operation and maintenance.

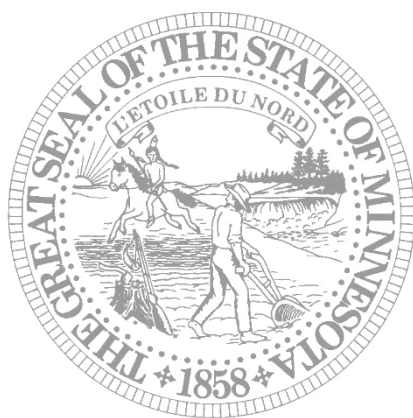
The Authority entered into three primary agreements for stadium operations: the Stadium Use Agreement with the Minnesota Vikings;¹ the Management and Pre-Opening Services Agreement with SMG; and the Food and Beverage, Catering, and Concession Agreement with Aramark Sports and Entertainment Services, LLC.

The Office of the Legislative Auditor conducted this audit to determine whether the Authority and other parties complied with selected provisions of the agreements.

Conclusion

The Minnesota Sports Facilities Authority's internal controls were adequate to ensure compliance with selected provisions of the Stadium Use Agreement; Management and Pre-Opening Services Agreement; and the Food and Beverage, Catering, and Concession Agreement. In addition, the Authority and other parties complied with the selected provisions of those agreements that we tested.

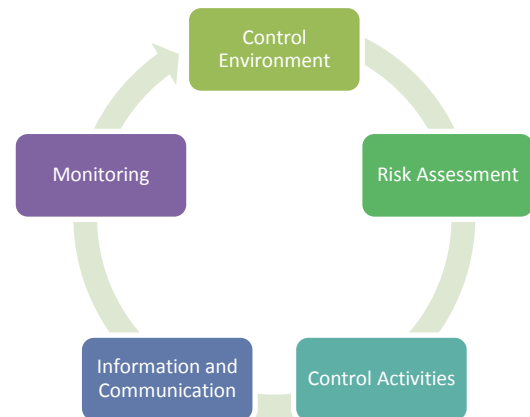
¹ The original Stadium Use Agreement was between the Authority and Minnesota Vikings Football, LLC (the Team). The Team subsequently assigned the agreement to Minnesota Vikings Football Stadium, LLC (StadCo). The Wilf family owns both the Team and StadCo.



Audit Overview

This report presents the results of an internal controls and compliance audit of selected activities at the Minnesota Sports Facilities Authority. Management is responsible for establishing internal controls to safeguard assets and ensure compliance with applicable laws, regulations, and state policies.

A strong system of internal controls begins with management's philosophy, operating style, and commitment to ethical values. It also includes processes to continuously assess risks and implement control activities to mitigate risks. Successful internal control systems include iterative processes to monitor and communicate the effectiveness of control activities.



Authority Overview

In 2012, the Legislature established the Minnesota Sports Facilities Authority as part of the law authorizing the State of Minnesota and City of Minneapolis to construct a new stadium for the Minnesota Vikings. The Authority oversaw the design and construction of the new stadium, now known as U.S. Bank Stadium. The Authority owns the stadium and is responsible for its operation and maintenance.

The Authority is a political subdivision of the State of Minnesota that consists of five members.² The Governor appoints the chair and two other members. The mayor of the City of Minneapolis appoints the final two members. In July 2017, Governor Mark Dayton appointed Michael Vekich as the Authority's chair. The previous chair, Michele Kelm-Helgen, served from June 2012 until March 2017. Kathleen Blatz served as the interim chair from March 2017 until July 2017.

The Authority appoints an executive director to oversee daily operations of U.S. Bank Stadium. James Farstad began serving as the interim executive director in January 2018 and oversees a staff of four. Prior to that, Ted Mondale served as executive director from June 2012 until March 2017. Rick Evans served as executive director from March 2017 until December 2017.

² *Minnesota Statutes* 2017, 473J.07, subd. 2.

Use of U.S. Bank Stadium

As required by state law, the Authority entered into a Stadium Use Agreement with the Minnesota Vikings in October 2013.^{3,4} The term of the agreement began when construction was complete in June 2016. The agreement ends on the date of the Viking's last home game of the 30th NFL season or June 17, 2046, whichever comes first. The Vikings have the right to renew the agreement for up to four consecutive periods of five years each.

The Stadium Use Agreement requires the Vikings to play all of its home games, including pre-season, regular season, and playoffs, at the stadium. The only exception to that requirement allows the Vikings to play up to three home games at a venue outside the United States during the first 15 years of the agreement and up to three more during the second 15 years.

As primary tenant of the stadium, the Vikings have priority to use the stadium for home games scheduled by the NFL and for up to five team events each year.⁵ The Authority can use the stadium on all other dates to schedule concerts or other events. State law requires the Authority to make the stadium available to the Minnesota Amateur Sports Commission up to ten days each year and to the Minnesota State High School League for at least seven days annually for high school soccer and football tournaments.⁶

State law requires the Vikings to pay an \$8.5 million operating cost payment and a \$1.5 million capital cost payment to the Authority annually, each increased by three percent per year.⁷ The operating cost payment is to help defray the operating expenses of the stadium, while the capital cost payment is for future capital improvements to the facility. The Stadium Use Agreement also requires the Vikings to pay for the additional operating expenses necessary on Vikings game days and for team events. The agreement further requires the Vikings to pay for all operating expenses of the team store and for telephone, private internet, and any incremental expenses associated with stadium space dedicated to the team.

Stadium Operations

The Authority entered into a Management and Pre-Opening Services Agreement with SMG in August 2014. SMG is a venue management company that operates numerous convention centers, arenas, and stadiums, including several other NFL stadiums. The agreement runs until July 2026, at which time the Authority has an

³ *Minnesota Statutes* 2017, 473J.15, subd. 3.

⁴ The original Stadium Use Agreement was between the Authority and Minnesota Vikings Football, LLC (the Team). The Team subsequently assigned the agreement to Minnesota Vikings Football Stadium, LLC (StadCo). The Wilf family owns both the Team and StadCo.

⁵ NFL teams play two pre-season and eight regular season home games each season and may also play up to two home playoff games.

⁶ *Minnesota Statutes* 2017, 473J.27.

⁷ *Minnesota Statutes* 2017, 473J.13, subd.2 (a) and 473J.13, subd.4 (b).

option to extend the contract an additional five years. Under the agreement, SMG is responsible for managing, maintaining, and marketing the stadium. SMG's duties include scheduling and booking events, maintenance and upkeep, security and crowd control, and managing the stadium concessionaire.

SMG's compensation is based on the net operating income of U.S. Bank Stadium. The Management and Pre-Opening Services Agreement guarantees the Authority \$6.75 million in net operating income annually, increased by 2 percent each year after the first year.⁸ In any year that the net operating income falls short of the guarantee, SMG must pay the difference to the Authority. If the net operating income exceeds the guarantee, SMG receives:

- 100 percent of the net operating income between \$6.75 million and \$7.25 million.
- 50 percent of the net operating income between \$7.25 million and \$8.25 million.
- 25 percent of the net operating income over \$8.25 million.

The calculation of net operating income includes all operating expenses of the stadium except extraordinary expenses from hosting large events, such as the Super Bowl or NCAA Final Four; any expenses from municipal services related to stadium events incurred for areas not within the stadium site; and utility services paid by the concessionaire. The calculation also includes all operating revenues of the stadium, including the \$8.5 million operating cost payment from the Vikings and the \$6 million operating cost payment from the state required by state law.⁹

The Management and Pre-Opening Services Agreement requires SMG to provide monthly financial reports to the Authority. It also requires SMG to provide independently audited financial statements for stadium operations for each operating year. The net operating income for the operating year ending June 30, 2017, was \$7,004,838.

Concessions

The Authority entered into a Food and Beverage, Catering, and Concession Agreement with Aramark Sports and Entertainment Services, LLC in January 2015. Besides U.S. Bank Stadium, Aramark provides similar services to NFL teams in several other cities. The agreement with Aramark runs until August 2026, with an automatic one-year extension if the Vikings play less than nine games at the stadium during any NFL season.

⁸ An operating year begins on July 1 and ends on June 30 of the subsequent year.

⁹ *Minnesota Statutes* 2017, 473J.13, subd.2 (b). The \$6 million may increase annually by an annual adjustment factor as defined in *Minnesota Statutes* 2017, 473J.03, subd.2. That increase may be up to 5 percent based on increases in the amounts of city of Minneapolis taxes received by the Department of Revenue.

Aramark is responsible for providing concession and catering services for all events at U.S. Bank Stadium. Specific duties include staffing, concession and catering services, and maintenance and cleaning of all catering and concessions facilities.

The Authority and the Minnesota Vikings earn a percentage of gross sales. The Food and Beverage, Catering, and Concession Agreement includes a complex set of provisions to allocate money to the Authority and the Vikings:¹⁰

Concessions

Aramark pays 53 percent of the first \$10 million and 55 percent thereafter. For team events, the Vikings receive the entire commission. For Authority events, the Authority receives 49 percent of gross sales, and the Vikings receive the rest.

Plaza/Urban Park Commissions

Aramark pays 35 percent of the first \$2 million and 40 percent thereafter. The Vikings receive the entire commission for team events, and the Authority receives the entire commission for Authority events.

Club Concessions

Aramark pays 40 percent of the first \$2 million and 45 percent thereafter. For team events, the Vikings receive the entire commission. For Authority events, the Authority receives 35 percent of the first \$5 million of gross sales and 37.5 percent thereafter. The Vikings receive the rest.

Clubs

Aramark pays 30 percent for all inclusive services. The Vikings receive the entire commission for team events, and the Authority receives the entire commission for Authority events.

Suites

Aramark pays 33 percent of the first \$3 million and 35 percent thereafter. For team events, the Vikings receive the entire commission. For Authority events, the Authority receives 23 percent of the first \$3 million of gross sales and 33 percent thereafter. The Vikings receive the rest.

Catering

Aramark pays 27.5 percent. For team events, the Vikings receive the entire commission. For Authority events, the Authority receives 23.5 percent of the first \$1.5 million of gross sales and 25 percent thereafter. The Vikings receive the rest.

¹⁰ The agreement requires the gross sales tiers listed for various types of commissions to increase annually by the Consumer Price Index published by the Bureau of Labor Statistics of the United States Department of Labor.

Subcontractors

Aramark pays 50 percent of sales net of amounts paid to subcontractors. The Vikings receive the entire commission for team events, and the Authority receives the entire commission for Authority events.

The Food and Beverage, Catering, and Concession Agreement includes annual guaranteed commissions of \$6 million to the Vikings, provided that the team plays at least ten games with at least 60,000 fans in attendance. The agreement also includes annual guaranteed commissions of \$1.8 million to the Authority, provided that the Authority has at least four major events with at least 40,000 attendees and alcohol sales.¹¹ Finally, the agreement requires Aramark to make an annual capital reserve payment to the Authority equal to 2.5 percent of gross sales for equipment replacement, future capital improvements, and service enhancements.

Aramark must provide monthly financial reports to the Authority and the Vikings. Annually, Aramark also must provide an independently audited report of gross sales and commissions.

Audit Objective, Scope, and Methodology

The objective of our audit of the Minnesota Sports Facility Authority for the period of January 1, 2016, through March 31, 2017, was to answer the following questions:

- Did the Minnesota Sports Facilities Authority have adequate internal controls to ensure compliance with selected provisions of the Stadium Use Agreement; Management and Pre-Opening Services Agreement; and the Food and Beverage, Catering, and Concession Agreement?
- Did the Minnesota Sports Facilities Authority and other parties comply with selected provisions of the Stadium Use Agreement; Management and Pre-Opening Services Agreement; and the Food and Beverage, Catering, and Concession Agreement?

To answer these questions, we interviewed staff of the Authority, SMG, and Aramark to gain an understanding of how the entities ensured compliance with each of the agreements. We read each of the agreements and selected provisions to review based on our assessment of the risk of noncompliance. For each selected provision, we inspected documentation to determine compliance.

We conducted the audit in accordance with generally accepted government auditing standards.¹² Those standards require that we plan and perform the audit to obtain

¹¹ Examples of major events include concerts, motocross races, monster truck shows, and international soccer games.

¹² U.S. Government Accountability Office, *Government Auditing Standards*, December 2011.

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions.

Audit Criteria

We assessed the Authority's internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.¹³ Our criteria for legal compliance included the provisions of the agreements and relevant Minnesota Statutes.

Conclusion

The Minnesota Sports Facilities Authority's internal controls were adequate to ensure compliance with selected provisions of the Stadium Use Agreement; Management and Pre-Opening Services Agreement; and the Food and Beverage, Catering, and Concession Agreement. In addition, the Authority and other parties complied with the selected provisions of those agreements that we tested.

¹³ Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government*, (Washington D.C., September 2014). In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.

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