



# AEG Contract Management Audit

City of Minneapolis  
Internal Audit Department  
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## Executive Summary

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The City of Minneapolis (the “City”) Internal Audit Department conducted an audit of the City’s contract with AEG Management MN, LLC (AEG) which governs AEG’s management of the City’s Target Center. This audit is included in the City’s Audit Plan approved by the Audit Committee. The objectives of this audit were to review compliance with select clauses of the contract between the City and AEG relative to the operation of the Target Center, evaluate the accuracy and completeness of AEG’s financial reporting of Target Center activities, and assess the adequacy of the City’s management of the contract.

The Audit Scope and Approach, Testing Results, and Conclusion are discussed below, followed by a Background section that describes the City’s processes to manage the AEG Target Center contract. A description of observations and management’s action plans are detailed in the final section.

## Audit Scope and Approach

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The scope of this audit included review of the processes listed below from April 1, 2015 to June 30, 2018 to encompass both pre- and post-arena renovation data. The audit approach included:

### **Contract Management and Oversight**

#### *Policy and Procedures*

- Requested AEG Policy and Procedures related to the operation of the Target Center to ensure that they are adequate to support the company’s activities.

#### *Service Level Agreements (SLAs)*

- Determined whether the City has a process in place to receive complaints/comments related to the Target Center, and communicate them to AEG so they are addressed timely.
- Determined whether the City ensures that the Target Center is well maintained.
- Determined whether AEG takes customer feedback seriously and acts on it in a timely manner.
- Determined whether the City ensures that the Target Center is operated according to the contract.

#### *Expense Management and Financial Reporting*

- Ensured that Auditors can access all documentation pertaining to the operation of the Target Center as part of the Audit.
- Determined whether and how the City monitors AEG financials for accuracy.
- Determined whether and how the City monitors AEG invoices to ensure that appropriate expenditures are being reimbursed.

#### *Event Booking*

- Ensured that the incentive structure at AEG does not increase the risk of unethical behavior or fraud.

- Determined whether and how the City monitors AEG financials for accuracy.

**Levy Concessions**

*Management of SLAs and Support for Financial Transactions*

- Ensured that AEG adequately monitors their third-parties (City’s fourth-parties).
- Ensured that the terms of the contract between AEG and LEVY do not result in potential violations of the terms of the contract between the City and AEG.

**Results and Summary of Issue Ratings**

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As a result of this audit, three (3) issues were identified:

1. The City does not perform a detailed financial review around AEG Target Center contract compliance (MOD)
2. There is no centralized tracking and monitoring of issues or complaints received from multiple sources, related to events at the Target Center (MOD)
3. AEG Target Center policies and procedures are not documented (LOW)

Table 1 below contains the overall evaluation of the severity of the risk and the potential impact on operations. There are many areas of risk to consider including financial, operational, compliance, and reputation when determining the relative risk rating. Issues are rated as High, Moderate, or Low.

**Table 1**

**AEG Contract Management Audit Summary of Observations and Issue Rating**

High	Moderate	Low
	The City does not perform a detailed financial review around AEG Target Center contract compliance	
	There is no centralized tracking and monitoring of issues or complaints received from multiple sources, related to events at the Target Center	
		AEG Target Center policies and procedures are not documented

- **High Risk:** Some key controls do not exist or are not properly implemented and control environment is impaired; high risk improvement opportunities require immediate corrective action
- **Moderate Risk:** Adequate control environment in most areas; moderate risk improvement opportunities identified which require corrective action
- **Low Risk:** Satisfactory overall control environment; small number of lower risk improvement opportunities identified which do not require a management action plan

The details of these observations are included within the *Observations and Management’s Action Plan* section of this report, beginning on page 8.

## Conclusion

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Overall, the City adequately manages its contract with AEG related to the operation of the Target Center. However, Internal Audit noted a limited number of control deficiencies, and opportunities for improved processes and implementation of best practices.

The City of Minneapolis Internal Audit team would like to acknowledge the cooperation, time and effort put forth by staff from the Minneapolis Convention Center (MCC), AEG, the City Finance Department, and the City Attorney's Office.

*We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.*

## Background

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### Target Center/AEG

The Target Center is a 20,000-seat multi-purpose arena, and home to the NBA's Minnesota Timberwolves and Minnesota Lynx. The arena hosts a wide variety of events including concerts, basketball, pro wrestling, mixed martial arts events, family shows, graduations and private events. Over one million guests visit the arena every year.

The Target Center is owned by the City of Minneapolis (the "City") and privately managed by Anschutz Entertainment Group (AEG) since 2007. See Table 2 below for a listing of Target Center owners and operators.

**Table 2**

<b>Year</b>	<b>Owner</b>	<b>Operator</b>
1990 - 1995	Marv Wolfenson; Harvey Ratner	Marv Wolfenson; Harvey Ratner
1995 - 2000	City of Minneapolis	Ogden Entertainment
2000 - 2001	City of Minneapolis	SFX Entertainment
2001 - 2004	City of Minneapolis	Clear Channel Entertainment
2004 - 2006	City of Minneapolis	Midwest Entertainment Group (MN Timberwolves and Nederlander Concerts)
2006 - 2007	City of Minneapolis	MN Timberwolves
2007 - Present	City of Minneapolis	AEG

Headquartered in Los Angeles, California, AEG is a leading sports and live entertainment company. The company has offices on five continents. The AEG Facilities segment of AEG is affiliated with or owns, manages or consults with more than 120 preeminent arenas, stadiums, theaters, clubs and convention centers around the world, including: Staples Center (Los Angeles, CA), The O2 (London), Sprint Center (Kansas City), Prudential Center (Newark), Home Depot Center (Los Angeles) and Nokia Theater (Dallas and New York City).

Jeff Johnson, Executive Director of the Minneapolis Convention Center and City Employee, manages the contract between the City and AEG related to the operation of the Target Center.

### Contract Background

The City and AEG are parties to an Amended and Restated Lease, Operating, Management, Use and Assurances Agreement dated as of May 2, 2007 regarding the arena portion of the Target Center. The City, AEG and the Minnesota Timberwolves Basketball Limited Partnership, are also parties to a Target Center Renovation Agreement dated as of June 15, 2015 regarding a project for the design, financing and construction of renovations to the Target Center. The Minneapolis City Council approved the planned \$129 million renovation cost in March 2016.

The contract between the City and AEG is scheduled to expire on the later of June 30, 2035 or the end of the NBA professional basketball season commencing in 2034 and ending in 2035, and the end of the 2035 WNBA

professional basketball season (including play-off periods in which the Team or Minnesota Lynx is a participant).

**Contract Compliance**

The contract between the City and AEG requires AEG to maintain the Target Center in good, clean, sanitary order, to not demolish or destroy any part, to maintain and operate the Target Center consistent with industry standards, and to perform all maintenance and repairs necessary to maintain it.

Monthly, the City’s AEG Contract Manager and a representative of the Finance Department attend AEG financial meetings. During those meetings, AEG presents various reports of current and historical financial performance and other select performance data.

During the renovation/construction years (2016 and 2017), the City was responsible for funding any operating loss that AEG incurred due to the renovation during years of construction. Maximum annual reimbursement amounts allowed by contract did not apply during the two construction years. The table below depicts the maximum City reimbursement amounts for non-renovation/construction years.

Source: AEG-City Lease Agreement - 2016 Amendment - Page 3

Arena Year	Maximum City Reimbursement Amount	Actual City Reimbursement Amount
2015	1,440,763	790,619
2016	Construction Year	1,890,204 <sup>1</sup>
2017	Construction Year	3,642,490 <sup>2</sup>
2018	1,627,184	1,627,184
2019-2035	The Maximum City Reimbursement Amount will inflate by 2.75% annually. For example, 2019 will be \$1,671,932.	N/A

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<sup>1</sup> This amount includes insurance that the City purchased through AEG Corporate as part of the \$140M renovation, for \$175,202 and \$115,002.59.

<sup>2</sup> For 2016 and 2017, the City was responsible for funding any operating loss without regard to the maximum reimbursement amount.

## Observations and Management Action Plans

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### ISSUE #1

*The City does not perform a detailed financial review around AEG Target Center contract compliance (Moderate)*

#### **Observation**

The City does not perform a detailed financial review of AEG financial reporting or accounting of transactions related to Target Center operations. The City does ensure maximum contract expenditures have not been met prior to processing a payment to AEG. A lack of oversight and monitoring of accounting transactions and financial reporting for AEG Target Center increases the risk of errors or fraud going undetected.

During Internal Audit's review of AEG Target Center financial transactions, a sample of 60 expenses were selected to validate supporting documentation. During this validation, invoices from two vendors by the same business owner were identified for further review. The first vendor was not actively registered with the State of Minnesota Secretary of State, and over the last four years, was not actively registered for a total of 58 months while providing services at the Target Center. Upon notification, the vendor was brought to active status with the State. Although the second vendor was actively registered at the time of our review, it had not been actively registered during the last four years for a total of 18 months while providing services at the Target Center.

Minnesota requires all businesses in Minnesota to register with the Office of the Minnesota Secretary of State. A business outside of Minnesota may not transact business in this state unless it holds a certificate of authority to do so. A business whose certificate of authority to do business in this state was revoked or canceled may have the certificate reinstated by filing an annual renewal and required fees.

#### **Management Action Plan**

Finance and Property Services (FPS) will commence an annual detailed financial review of the AEG Target Center contract as part of a larger program to perform a detailed financial review of key City contracts.

FPS may work with the Internal Audit team to obtain suggestions to perform detailed financial reviews of key contracts and to receive awareness training for fraud red flags. Potential issues that may be noted during detailed financial reviews will be reviewed with the City's AEG Target Center Contract Manager, and the City Attorney's Office or City Coordinator as needed.

Target remediation date:	August 31, 2019
Responsible party:	Mark Ruff, Chief Financial Officer



## ISSUE #2

*There is no centralized tracking and monitoring of issues or complaints received from multiple sources, related to events at the Target Center (Moderate)*

### **Observation**

The City has no formally centralized or documented complaint management process in place related to operations of the Target Center, and AEG has limited documentation of their complaint management process. In addition, the City does not document the results of the site visits of the Target Center or walkthroughs of AEG contract service level agreements.

AEG receives guest and client feedback through multiple channels that include email, text, phone and in-person interactions. The multiple feedback channels are made available to accommodate the wide variety of guests and clientele of the Target Center; however, only issues received via text message are formally tracked.

The lack of a centralized and documented complaint and issue tracking process increases the risk that emerging risks are not identified, complaints are not resolved adequately, timely or consistently, and identification and communication of a reportable event may be delayed.

### **Management Action Plan**

As part of the City/AEG monthly meetings starting in January of 2019, AEG will provide statistics relating to the types of issues received at all Target Center events. Trends regarding issues and resolutions will be components of the statistics provided to be decided on jointly with the City.

Target remediation date:	June 30, 2019
Responsible party:	Jeff Johnson, Executive Director, Minneapolis Convention Center

## ISSUE #3

*AEG Target Center policies and procedures are not documented (Low)*

### **Observation**

AEG Target Center policies and procedures are not documented. There are no documented procedures covering maintenance and custodial schedules and services.

Policies contain high-level principles, roles and responsibilities that an organization must follow. Procedures are affiliated with policies and define lower-level processes, such as daily, weekly or quarterly functions and job activities.

A lack of written policies and procedures increases the risk of discontinuity of operations, and improper or inconsistent accounting of transactions and financial reporting.

### **Management Action Plan**

A management response is not required for low rated audit issues.