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STATE OF MINNESOTA

Office of the State Auditor

Patricia Anderson
State Auditor

MINNESOTA STATE HIGH SCHOOL LEAGUE BROOKLYN CENTER, MINNESOTA

FOR THE YEAR ENDED JULY 31, 2003

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government.

Pension Oversight - monitors investment, financial, and actuarial reporting for over 700 public pension funds;

Tax Increment Financing (TIF) - promotes compliance and accountability in local governments' use of TIF through financial and compliance audits;

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA

For the Year Ended July 31, 2003

Management Letter

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State of Minnesota

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MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA

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MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN PARK, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JULY 31, 2003

I. INTERNAL CONTROLS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

98-1 Segregation of Duties - Regions

Each region has an administrative secretary who is responsible for the accounting functions. Some region secretaries have an assistant who shares some of these duties. However, segregation of accounting functions needed to provide adequate internal accounting control is limited when only one or two individuals are involved.

It is the responsibility of the Minnesota State High School League (MSHSL) and each region committee to continue to be aware of the risks associated with limited segregation of duties. The MSHSL and region committees should continue to monitor and provide oversight in this area.

Client's Response:

The segregation of duties will continue to be an issue when only one or two individuals are involved. The League's Director of Finance has reviewed oversight procedures with the Region Secretaries and the Chairperson of each Region Committee, and the League office will ensure that League employees are fully aware of their responsibilities to collect, disperse, reconcile and report Region funds to the Committee for their official approval.

II. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

03-1 Special Expenses

Region secretaries are employees and, as such, are subject to MSHSL policies and guidelines. The MSHSL's *Board of Directors Policy Manual and Guidelines* requires the use of special expense forms to document prior approval and authorization of expenses incurred in connection with official functions of the MSHSL that do not fall under regular expense and travel policies.

In seven regions, special expense forms were not consistently used to document approval and authorization of some expenses that meet the criteria for special expenses. In addition, instances occurred where amounts reported on special expense forms for a region could not be reconciled to supporting invoices. In another region, invoices were not submitted as support with a special expense form.

We recommend the MSHSL clarify management's expectations and guidelines for special expenses. The MSHSL should monitor and work with region secretaries to ensure the consistent use of appropriate forms to document and authorize special expenses.

Client's Response:

The League office has earlier discussed the special expense forms with the Region Secretaries, and examples of how and when the forms must be used will be communicated to the Region Secretaries. This item will be included on the agenda for discussion when the Region Secretaries next meet in the League office.

III. OTHER ITEM FOR CONSIDERATION

Governmental Accounting Standards Board Statement

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments,* which will change financial statement reporting and disclosure requirements in the future. Based on the MSHSL's fiscal year 1999 total revenues of $9,299,417, the new financial reporting requirements will be effective for the fiscal year ending July 31, 2004. The MSHSL should become knowledgeable on how this accounting pronouncement will affect its annual financial reporting.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND LEGAL COMPLIANCE

Board of Directors
Minnesota State High School League

We have audited the basic financial statements of the Minnesota State High School League (MSHSL) as of and for the year ended July 31, 2003, and have issued our report thereon dated December 4, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of the MSHSL is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the MSHSL's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the MSHSL's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 98-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Legal Compliance

In accordance with Minn. Stat. § 128C.12, we performed tests of compliance with appropriate laws and regulations. The results of our tests indicate that for the items tested, the MSHSL complied with the material terms and conditions of applicable laws and regulations.

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This report is intended for the information of the Board of Directors, region committees, and management and is not intended to be, and should not be, used by anyone other than those specified parties.

PATRICIA ANDERSON
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 4, 2003