

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT LETTER PREPARED AS
A RESULT OF THE AUDIT OF THE

MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA

FOR THE YEAR ENDED JULY 31, 2009

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of 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 - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

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

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**MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA**

For the Year Ended July 31, 2009



Management Letter

**Audit Practice Division
Office of the State Auditor
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, 2009**

I. INTERNAL CONTROLS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

07-1 Internal Control/Segregation of Duties - Regions

Each region has an administrative secretary who is responsible for the accounting functions. Establishing and maintaining internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information is the responsibility of each region secretary, each region committee, and the Minnesota State High School League (MSHSL). Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the regions and their staffing limits the internal control that can be designed and implemented into the organization. Management should be aware that segregation of duties at the region level is not adequate from an internal control point of view.

Management of each region and the MSHSL are responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

The management of Regions 1A, 4A, 5A, 1AA, 3AA, 4AA, 5AA, and 6AA requested that we prepare the financial statement information and related note disclosures included in the audited financial report of the MSHSL. This arrangement is not unusual for organizations the size of the regions. This decision was based on the availability of the regions' staff and the cost benefit of using our expertise.

During our region audits, we proposed material adjustments to convert six of the region's financial records to the financial statements as reported. These adjustments increased assets and liabilities, and resulted in a net increase in related expenses.

We recommend that each region committee and the Board and management of the MSHSL be mindful that limited staffing causes inherent risks in safeguarding the organization's assets and the proper reporting of its financial activity. We recommend the region committees and the Board and management of the MSHSL continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

The segregation of duties will continue to be an issue when only one or two individuals are involved. The League's Assistant Director has reviewed oversight procedures with the Region Secretaries 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. Many Regions continue to ask the State Auditors to prepare their financial statements. That decision is based on the auditor's expertise and cost-benefit analysis of hiring additional staff to perform this function.

ITEM ARISING THIS YEAR

09-1 Tournament Reports

During our review of the tournament revenues and reports at each of the regions, we noted the following issues:

- five regions had tournament reports with missing beginning and ending ticket numbers or improper ticket numbers,
- one region had a tournament report with no recorded program sales,
- four regions had tournament reports with ticket numbers that did not reconcile to the revenue received, and
- three regions had missing tournament reports.

We recommend that region secretaries more closely monitor site personnel and tournament managers to ensure that tournament reports are complete, accurate, and submitted for all tournaments.

Client's Response:

The League office will work directly with the Region Secretaries to ensure that tickets are used at all League functions where revenue is collected and tournament reports uniformly identify ticket numbers. Region Secretaries will be instructed to return incomplete forms to each tournament manager and to accept them only when all of the required documentation is complete.

The League will continue to work with region personnel to improve accountability for region revenues and disbursements, and will request that Region Secretaries replace any tournament manager who consistently is unable to perform the required duties.

PREVIOUSLY REPORTED ITEMS RESOLVED

Segregation of Duties - Disbursements (08-1)

During our review of the MSHSL's disbursements process, we noted two individuals who had the ability to both process disbursements and set up new vendors.

Resolution

New procedures to oversee new vendors entered in the accounting system have been implemented.

Controls Over Accounting System Journal Entries (08-2)

During our review of the journal entry system, we noted that the MSHSL did not have formal policies and procedures over journal entries; one individual could both create and post a journal entry without review or approval by a second person; and supervisory review and approval of journal entries was not always documented.

Resolution

Policies and procedures over journal entry processing have been written and implemented. All journal entries reviewed during the current audit had the appropriate review and approval documentation included.

II. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM RESOLVED

Special Expenses (03-1)

During our review of special expense forms, we noted three regions where special expense forms were not used or were not used properly to document approval and authorization of expenses that meet the criteria for special expenses.

Resolution

During the current audit, we noted only one region where special expense forms were not used properly. There has been significant improvement in this area over the past several years, and we consider this item to be resolved.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND LEGAL COMPLIANCE

Board of Directors
Minnesota State High School League

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the Minnesota State High School League (MSHSL) as of and for the year ended July 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the MSHSL's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MSHSL's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MSHSL's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the MSHSL's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the MSHSL's financial statements that is more than inconsequential will not be prevented or detected by the MSHSL's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the MSHSL's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 07-1 and 09-1 to be significant deficiencies in internal control over financial reporting.

Legal Compliance

We have audited the financial statements of the MSHSL as of and for the year ended July 31, 2009, which collectively comprise the MSHSL's basic financial statements. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of Regions 2A, 3A, 6A, 7A, 8A, 2AA, 7AA, and 8AA as described in our report on the MSHSL's financial statements. This report does not include the results of the other auditor's testing. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and, 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.

The MSHSL's written responses to the significant deficiencies identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the MSHSL's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 22, 2010