

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, 2008

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, 2008



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, 2008**

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, 2AA, 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 five of the region's financial records to the financial statements as reported. These adjustments increased liabilities and 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 staff from the Office of the State Auditor 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.

ITEMS ARISING THIS YEAR

08-1 Segregation of Duties - Disbursements

During our review of the MSHSL's disbursements process, we noted two individuals who have the ability to both process disbursements and set up new vendors. If at all possible, these duties should be segregated.

We recommend that management re-evaluate whether separation of duties between disbursements and vendor setup is possible. Procedures should be developed to monitor new vendors entered into the system.

Client's Response:

The segregation of duties will continue to be an issue when only a few individuals are involved in the disbursement process. The League's Assistant Director has implemented new procedures to oversee new vendors entered in the accounting system. Vendors entered by the Accounting Assistant will be reviewed and approved by the Assistant Director, and vendors entered by the Assistant Director will be reviewed and approved by the Accounting Assistant. The review and approval will be signed and dated by the respective individual.

08-2 Controls Over Accounting System Journal Entries

The MSHSL limits portions of the journal entry function to several employees. During our review of the journal entry function, we noted the following:

- There are no formal policies and procedures in place over journal entries.
- One individual can both create and post a journal entry without review or approval by a second person.
- Supervisory review and approval of journal entries is not always documented.

The ability to make journal entries on the accounting system is a powerful function because it allows changes to be made to the general ledger system. Controls over journal entries should include:

- limited access to only those employees whose job duties require it,
- an explanation of why the journal entry is being made and who is making it,
- sufficient documentation to support the journal entry amounts,
- proper supervisory review and approval of journal entries, and
- evidence that controls have been monitored by someone independent of the journal entry process.

We recommend the MSHSL strengthen controls over journal entries by: (1) adopting formal policies and procedures over the journal entry process, and (2) requiring journal entries to display evidence that they were reviewed by a second individual. In addition, if possible, a report should be generated periodically that shows journal entries that are not automatic or routine which have been posted to the general ledger system. Review and monitoring of this report should be done on a regular basis by someone knowledgeable and independent of the journal entry process to ensure that journal entries made have been reviewed and approved.

Client's Response:

The League office will prepare written policies and procedures for journal entry processing. Journal entries will be supported by documentation that may be filed separately from the journal entry, but will be accessible for review. Due to a limited number of accounting staff, certain individuals may initiate and post journal entries, but all entries will have a second review before month-end closing.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

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 three regions, we noted instances 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.

We recommend the MSHSL continue in its efforts to 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, authorize, and support special expenses.

Client's Response:

The League office will discuss the use of the special expense forms with the Region Secretaries at the April 7, 2009, meeting. An example of how and when the forms must be used will be communicated at this meeting.

B. OTHER ITEM FOR CONSIDERATION

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. This standard, similar to what GASB Statement 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statement, accounting for OPEB is now similar to the accounting used by governments for pension plans.

In 2008, the Legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows governments to create both revocable and irrevocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both revocable and irrevocable OPEB trusts; and
- it also permits governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the Board of Directors will need to address in order to comply with the statement are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Board will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the Board will have to decide whether to establish a revocable or an irrevocable trust, and report that trust appropriately in the financial statements; and
- in order to determine annual costs and liabilities that need to be recognized, the Board will have to decide whether to hire an actuary.

GASB Statement 45 would be applicable to the MSHSL for the year ended July 31, 2009.

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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, 2008, and have issued our report thereon dated January 26, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Other auditors audited the financial statements of Regions 2A, 3A, 6A, 7A, 8A, 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements of the MSHSL as of and for the year ended July 31, 2008, 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, 08-1, and 08-2 to be significant deficiencies in internal control over financial reporting.

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.

Also included in the Schedule of Findings and Recommendations is a management practices comment and an other item for consideration. We believe this recommendation and information to be of benefit to the MSHSL and report them for that purpose.

The MSHSL's written responses to the significant deficiencies and management practices comment 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 26, 2009