



**2009 Report on the
Minnesota State
High School League**

**Report
To the
Legislature**

**As required by
Minn. Stat. §
128C.20**

Report amended January 8, 2010, in response to document received from Minnesota Management and Budget. See: p. 3, Purpose of Report, last paragraph; p. 6, Compensation of the MSHSL's Executive Director; and p. 8, MSHSL Program Implementation, last paragraph.

COMMISSIONER:

Alice Seagren

FOR MORE INFORMATION CONTACT:

Sara Winter

Minnesota Department of Education

T: (651) 582-8237

FAX: (651) 582-8725

E-MAIL: sara.winter@state.mn.us

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1500 Highway 36 West

Roseville, MN 55113-4266

TTY: (800) 627-3529 OR (651) 582-8201

**As required by
Minnesota
Statute
§ 128C.20**

Upon request, this report can be made available in alternative formats.

ESTIMATED COST OF PREPARING THIS REPORT

This report provides information that is maintained and published by the Minnesota Department of Education as a part of its normal business functions. Therefore, the cost information reported below does not include the cost of gathering the data but rather is limited to the estimated cost of actually analyzing the data, determining recommendations, and preparing this report document.

Special funding was not appropriated for the costs of preparing this report.

The estimated cost incurred by the Minnesota Department of Education in preparing this report is \$350.00.

REPORT ON THE MINNESOTA STATE HIGH SCHOOL LEAGUE

Purpose of the Report

Minnesota Statute § 128C.20, Subdivision 1, requires the Commissioner of Education (Commissioner) to conduct an annual review of the Minnesota State High School League (MSHSL). The MSHSL “is a nonprofit corporation that is a voluntary association of high schools . . . whose governing boards have delegated their control of extracurricular activities . . . to the [MSHSL].” Minn. Stat. § 128C.01, Subd. 1. Minnesota Statute § 128C.20, Subdivision 1, specifically directs the Commissioner to obtain and review the following information about the MSHSL:

1. An accurate and concise summary of the annual financial and compliance audit prepared by the state auditor that includes information about the compensation of and the expenditures by the executive director of the MSHSL and MSHSL staff;
2. A list of all complaints filed with the MSHSL, all lawsuits filed against the MSHSL, and the disposition of those complaints and lawsuits;
3. An explanation of the executive director’s performance review;
4. Information about the extent to which the MSHSL has implemented its affirmative action policy, its comparable worth plan, and its sexual harassment and violence policy and rules; and
5. An evaluation of any proposed changes in MSHSL policy.

The Commissioner has obtained the following sources of data for this report: correspondence from the President of the MSHSL Board of Directors (Board President); Department of Employee Relations notice to MSHSL of compliance with Local Government Pay Equity Act dated October 6, 2006; MSHSL 2009 Proposed Representative Assembly Amendments (Clarified 11-19-08); MSHSL 2008-09 Annual Report; the MSHSL Annual Financial Report and Management Letter completed by the State of Minnesota, Office of the State Auditor, for the year ended July 31, 2008; and Minnesota Management and Budget Letter dated January 6, 2010.

State Auditor’s Financial and Compliance Audit

The Commissioner must obtain and review an accurate and concise summary of the annual financial and compliance audit prepared by the state auditor that includes information about the compensation of, and the expenditures by, the executive director of the MSHSL and MSHSL staff.

The Minnesota State Auditor’s report reviewed the basic financial statements of the MSHSL for fiscal year 2008. In its Management Letter, the state auditor included the following schedule of findings and recommendations:

1. 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 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.

During the region audits, it was proposed material adjustments to convert five of the region's financial records to the financial statements as reported. These adjustments increased liabilities and expenses. It was recommended 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. It was further recommended 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. This was a previously reported item not resolved.

2. Two individuals have the ability to both process disbursements and set up new vendors. If at all possible, these duties should be segregated.

It was recommended 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.

3. The MSHSL limits portions of the journal entry function to several employees. During review of the journal entry function, the following was noted:
 - 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 the 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.

It was recommended that 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.

4. 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, instances were noted where special expense forms were not used or were not used properly to document approval and authorization of expenses that met the criteria for special expense.

It was recommended the MSHSL continue 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. This was a previously reported item not resolved.

5. 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 reports for OPEB. These standards, similar to what GASB Statements 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 statements, 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 Board of Directors will need to address in order to comply with the statement are:

- determine if the 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 the services of an actuary.

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

In accordance with Minn. Stat. § 128C.12, the state auditor performed tests of compliance with appropriate laws and regulations. The results of their tests indicated that, for the items tested, the MSHSL complied with the material terms and conditions of applicable legal provisions.

A. Compensation of the MSHSL's Executive Director and Staff

According to the Board President, staff salaries are based on a range established in policy by the Board of Directors. Salaries are based, among other criteria, upon a comparison of similar athletic and activity associations in the states that comprise the Big Ten athletic conference (Illinois, Indiana, Iowa, Michigan, Minnesota, Ohio, Pennsylvania, and Wisconsin). The Minnesota Management and Budget (MMB) formerly known as Department of Employee Relations (DOER), affirmed MSHSL's compliance with pay equity laws in a letter to the MSHSL dated January 6, 2010.

B. Expenditures of the MSHSL's Executive Director and Staff

According to the Board President, the director and his staff were reimbursed a total of \$23,988.04 for statewide travel during the 2007-2008 school year. The Board President states that expenses are reimbursed as identified in the Board of Directors policy and in Minn. Stat. § 43A.18, Subd. 2, the Commissioner's Plan.

Complaints and Lawsuits

The Commissioner must obtain and review a list of all complaints filed with the MSHSL, all lawsuits filed against the MSHSL, and the disposition of those complaints and lawsuits.

State law does not proscribe a dispute resolution method for the MSHSL, but the MSHSL has established a policy for hearing disputes regarding student eligibility including hearing and hearing review procedures.

Description of the hearings held during the 2007-2008 fiscal year are as follows:

- September 4, 2008 – Bylaw 111, Transfer and Residence
Hearing Officer recommended and Board of Directors approved the student is eligible for varsity competition for the 2008-2009 school year.
- September 4, 2008 – Bylaw 111, Transfer and Residence
Hearing Officer recommended and Board of Directors approved the MSHSL sustain the declaration of ineligibility of the student.

- September 18, 2008 – Bylaw 111, Transfer and Residence
Hearing Officer recommended and Board of Directors approved that the student is not eligible for varsity competition for the 2008-2009 school year.
- September 18, 2008 – Bylaw 111, Transfer and Residence
Hearing Officer recommended and Board of Directors approved that the student is not eligible for varsity competition for the 2008-2009 school year.
- September 18, 2008 – Bylaw 111, Transfer and Residence
Hearing Officer recommended and Board of Directors approved that the student is not eligible for varsity competition for the 2008-2009 school year.
- October 3, 2008 – Bylaw 111, Transfer and Residence
Hearing Officer recommended and Board of Directors approved that Bylaw 111 not be waived given lack of any special and unusual circumstances surrounding the case and upheld the previous determination that the student shall not be eligible for varsity competition for a period of one calendar year from the date of enrollment at the high school.
- October 28, 2008 – Bylaw 209, Sexual/Racial/Religious Harassment/Violence and Hazing in League Sponsored Athletic and Fine Arts Activities
Hearing Officer recommended and Board of Directors approved that it uphold the determination of ineligibility of student as made by the high school hearing panel, but the ineligibility should be based on a violation of Bylaw 209.2, sexual harassment and hazing violations. The penalty imposed for that violation should be that as for a first violation. The determination that the student violated Bylaw 209.3, sexual violence, be dismissed and expunged from MSHSL records. Further, as the MSHSL as no authority to interfere with the principal's determination of a violation of Bylaw 206.2, the imposition of ineligibility for one year must remain unless modified by the high school's principal.
- November 18, 2008 – Bylaw 111, Transfer and Residence – TRO
TRO dismissed upon receipt of documentation and Board of Directors determination that student was eligible for varsity competition.
- December 3, 2008 – Bylaw 111, Transfer and Residence
Hearing Officer recommended and Board of Directors accepted the findings of the Hearing Officer contingent on submission of documentation to support the family rationale to approve the reversal of the declaration of the student's ineligibility for varsity competition for one year, and grant a waiver thereby allowing the student to be eligible.
- December 19, 2008 – Bylaw 111, Transfer and Residence
Hearing Officer recommended and Board of Directors approved that the student is not eligible for varsity competition for a period of 365 days from the student's enrollment at the high school.
- March 24, 2009- Bylaw 111, Transfer and Residence
Hearing Officer recommended and Board of Directors approved with one amendment: that student shall be ineligible until November 11, 2009, but that the student is not eligible for varsity competition until then.

Executive Director's Performance Review

The Commissioner must obtain and review an explanation of the executive director's performance review. The annual evaluation of the executive director was completed in 2009 and is positive. According to Board President: "It is because of [Executive Director's] leadership that the [MSHSL] is a sound organization. [Executive Director] is extremely committed to promoting the mission, values of the MSHSL and the implementation of the board's goals. He is a person of integrity, fairness and honesty and consistently models these qualities for his staff and for the leadership of the MSHSL and its member schools."

MSHSL Program Implementation

The Commissioner must obtain and review information about the extent to which the MSHSL has implemented its affirmative action policy, its comparable worth plan, and its sexual harassment and violence policy and rules.

According to the Board President, the Board's affirmative action policies ensure that jobs within the MSHSL are equally accessible to all qualified persons. The Board President states that staff follow Minn. Stat. § 128C.15, Subd. 2 when employment opportunities become available.

According to the Board President, the MSHSL's comparable worth plan was initially adopted in the fall of 1988. A consultant was subsequently hired to evaluate jobs and assign pay grades. The comparable worth plan submitted by the consultant was approved by the Board on August 14, 1997. In January 2009, the MSHSL sent its most recent pay equity report to DOER (MMB). MMB notified the MSHSL that it was in compliance on January 6, 2010.

According to the Board President, the MSHSL's Sexual, Racial and Religious Harassment and Violence and Hazing Policy was adopted as a Bylaw, and it is enforced statewide. The MSHSL has shared the vision of the harassment/hazing policy with all of the states in the National Federation of State High School Associations.

Evaluation of Proposed Changes in League Policy

The Commissioner must obtain and review an evaluation of any proposed changes in MSHSL policy. The Board President provided a copy of Minutes Meeting of the Representative Assembly which provided the changes as follows:

- The MSHSL has been delegated the authority to arrange membership in an interscholastic conference for any high school that has been involuntarily excluded or because of the dissolution of a conference, provided that the displaced school has made its own 180-day good faith effort to obtain conference membership. The Board has affirmed criteria which applies in considering conference membership proposals.
- Complimentary tickets for retired executive staff and other MSHSL employees who have been on the MSHSL staff for twenty (20) or more years and who have served with the Executive Staff in an administrative capacity may request and receive four (4) complimentary tickets to any state tournament event.
- Certain legal requirements that a signature must meet in order to be recognized outlined.
- Draft language on policy on pre-game prayer.

- Background Checks for Official Applicants Policy.
- Effective with the Class of 2009-2010, Members of the Board of Directors of the MSHSL will be able to attend the Summer Meeting of the National Federation, at League expense, during any of their first two (2) years of services on the Board. Additional representatives may be approved by the Board of Directors annually.
- Contract extended including advertising revenue and live web broadcasting of tournaments not currently covered in the existing television contract; electronic retention of documents policy and electronic signatures policy.
- Proposed High School League Bylaw Amendment: Summer, Scheduling of Contests: Summer Vacation Period – defining summer for the sport of soccer. Approved May 18, 2009.
- Proposed High School League Bylaw Amendment: Summer Coaching Waiver – amending dates member school shall have the authority to approve a coaching waiver. Approved May 18, 2009.

Conclusion

Minnesota Statute § 128C.20, Subdivision 1 requires the Commissioner of MDE to conduct an annual review of the Minnesota State High School League. This report documents the required review.