

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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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, 2013

## **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, 2013**



**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, 2013**

**INTERNAL CONTROLS**

**PREVIOUSLY REPORTED ITEMS NOT RESOLVED**

07-1 Internal Control/Segregation of Duties - Regions

**Criteria:** 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.

Management of each region and the MSHSL is 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.

**Condition:** Due to the limited number of staff, the management of Regions 1A, 4A, 5A, 1AA, 3AA, 4AA, 5AA, and 6AA requested that the Office of the State Auditor prepare the financial statement information and related note disclosures included in the audited financial report of the MSHSL.

**Context:** The size of the regions and their staffing limits the internal control that management can design and implement into the organization. Without proper segregation of duties, errors or irregularities may not be detected timely.

**Effect:** 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 related expenses.

**Cause:** 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.

**Recommendation:** 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.*

09-1 Tournament Reports

**Criteria:** Tournament reports are required to be completed by the schools hosting the tournament to account for tickets sold and tournament revenue. The tournament location, activity, date, beginning and ending ticket numbers, and tickets used are to be recorded on the tournament reports. The reports are signed and submitted to the region secretaries along with the tournament revenue.

**Condition:** 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 missing tournament reports;
- two regions had tournament reports that were not signed; and
- two regions had tournament reports with ticket numbers that did not reconcile to the revenue received or recorded in the general ledger.



**Context:** Many tournaments are held at numerous sites statewide. Tournaments are oftentimes staffed with workers who have no prior tournament experience.

**Effect:** Inaccurate tournament records and reporting of tournament revenues.

**Cause:** Tournament workers do not take the proper care to accurately record tournament activity.

**Recommendation:** 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.*

ITEM ARISING THIS YEAR

13-1 Bank Reconciliations

**Criteria:** Reconciliations are control activities which involve the comparison of two sets of related records or balances from different sources. Effective reconciliations identify differences between the records or balances. When differences are found, one should then investigate why the differences exist and resolve the differences in a timely manner.

**Condition:** Based on our performance of a proof of cash for three of the regions audited, it was determined that certain items included in the regions' bank reconciliations were incorrect. Items included incorrect amounts for deposits in transit, checks listed as outstanding that had actually cleared, and reconciliations to incorrect book balances.

**Context:** Reconciliations are a tool to help ensure cash records are complete and accurate.

**Effect:** Without proper reconciliations, the regions have no assurance that the book balance is accurately stated. Complete and accurate bank reconciliations would provide evidence that all funds received and disbursed through the checking account have been properly recorded in QuickBooks.

**Cause:** Based on the bank reconciliation process performed, the region secretaries were unaware that the bank reconciliations contained errors.

**Recommendation:** We recommend that region secretaries reconcile the bank balance to the actual book balance. Furthermore, we recommend that region secretaries perform a year-end proof of cash to ensure that bank transactions have been properly recorded as inflows and outflows on the region's general ledger.

Client's Response:

*The League office will work directly with the three Regions to correct errors in the bank reconciliation process. Region Secretaries are expected to complete accurate monthly bank reconciliations. We will continue to work with Region Secretaries to insure accurate bank records are maintained.*



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STATE AUDITOR

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## COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board of Directors  
Minnesota State High School League

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the Minnesota State High School League (MSHSL), as of and for the year ended July 31, 2013, and the related notes to the financial statements, which collectively comprise the MSHSL's basic financial statements, and have issued our report thereon dated December 18, 2013. Our report includes 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 other auditors' 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, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the MSHSL's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MSHSL's internal control. Accordingly, we do not express an opinion on the effectiveness of the MSHSL's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the MSHSL's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Those significant deficiencies are reported in the Schedule of Findings and Recommendations as items 07-1, 09-1, and 13-1.

### **Other Matters**

The MSHSL's written responses to the internal control findings 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.

### **Purpose of This Report**

This communication is intended solely for the information and use of management, Board of Directors, region committees, 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

December 18, 2013



REBECCA OTTO  
STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE

Board of Directors  
Minnesota State High School League

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the Minnesota State High School League (MSHSL), as of and for the year ended July 31, 2013, and the related notes to the financial statements, which collectively comprise the MSHSL's basic financial statements and have issued our report thereon dated December 18, 2013.

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 auditors' 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.

In connection with our audit, nothing came to our attention that caused us to believe that the MSHSL failed to comply with the provisions reviewed. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the MSHSL's noncompliance with the provisions reviewed.

This communication is intended solely for the information and use of the Board of Directors, region committees, management, others within the MSHSL and the State Auditor 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

December 18, 2013

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