

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Minnesota State High School League Brooklyn Center, Minnesota

Management and Compliance Report

Year Ended July 31, 2022

Description of the Office of the State Auditor

The Office of the State Auditor (OSA) helps ensure financial integrity and accountability in local government financial activities. The OSA is the constitutional office that oversees more than \$40 billion in annual financial activity by local governments and approximately \$20 billion of federal funding financial activity.

The OSA performs around 90 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office maintains the following seven divisions:

- **Audit Practice:** Helps ensure fiscal integrity by conducting financial and compliance audits of local governments and the federal compliance audit of the State of Minnesota.
- **Constitution:** Connects with the public via external communication, media relations, legislative coordination, and public engagements for the State Auditor.

This division also supports the State Auditor's service on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, the Minnesota Historical Society, and the Rural Finance Authority Board.

- **Government Information:** Collects, analyzes, and shares local government financial data to assist in policy and spending decisions; administers and supports financial tools including the Small Cities and Towns Accounting System (CTAS) software and infrastructure comparison tools.
- **Legal/Special Investigations:** Provides legal analysis and counsel to the OSA and responds to outside inquiries about Minnesota local law relevant to local government finances; investigates local government financial records in response to specific allegations of theft, embezzlement, or unlawful use of public funds or property.
- **Operations:** Ensures the office runs efficiently by providing fiscal management and technology support to the office.
- **Pension:** Analyzes investment, financial, and actuarial reporting for Minnesota's local public pension plans and monitors pension plan operations.
- **Tax Increment Financing (TIF):** Promotes compliance and accountability in local governments' use of tax increment financing through education, reporting, and compliance reviews.

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www.osa.state.mn.us

Minnesota State High School League Brooklyn Center, Minnesota

Year Ended July 31, 2022



Office of the State Auditor

Management and Compliance Report

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

**Minnesota State High School Authority
Brooklyn Center, Minnesota**

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**Communications of Significant Deficiencies and/or
Material Weaknesses in Internal Control
Over Financial Reporting and Other Matters**

Board of Directors
Minnesota State High School League
Brooklyn Center, Minnesota

We have audited, in accordance with 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, 2022, and the related notes to the financial statements, which collectively comprise the MSHSL's basic financial statements, and have issued our report thereon dated April 25, 2023. Our report includes a reference to other auditors. Other auditors audited the financial statements of Regions 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 other auditors' testing.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the MSHSL's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MSHSL's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting 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. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as items 2022-001 and 2022-002, that we consider to be significant deficiencies.

The MSHSL's response to the internal control findings identified in our audit is described in the Schedule of Findings and Recommendations, included in items 2022-001 and 2022-002. The MSHSL's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Directors, management, 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/Julie Blaha

Julie Blaha
State Auditor

April 25, 2023

Minnesota State High School League Brooklyn Center, Minnesota

Schedule of Findings and Recommendations For the Year Ended July 31, 2022

Financial Statement Findings

2022-001 Internal Control/Segregation of Duties – Regions

Prior Year Finding Number: 2021-001

Repeat Finding Since: 2007

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

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, 2A, 4A, 5A, 1AA, 2AA, 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.

Effect: Inadequate segregation of duties could adversely affect the regions' ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

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 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 further 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.

View of Responsible Official: Acknowledge

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 of each Region Committee annually, and the League office will ensure that League employees are fully aware of their responsibilities to collect, disperse, reconcile, and report region funds to each Region Committee for their official approval. Many

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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.

2022-002 Tournament Reports

Prior Year Finding Number: 2021-002

Repeat Finding Since: 2009

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

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 review of the tournament revenue and reports at each of the regions, the following issues were noted:

- eight regions had tournament reports with missing beginning and ending ticket numbers, improper ticket numbers with no documented explanation, or a reference to an online ticket report that was not included with the tournament report;
- one region had a tournament report that was missing;
- two regions had tournament revenue recorded incorrectly in the general ledger;
- five regions had tournament reports where the ticket numbers did not reconcile to the revenue received;
- five regions had tournament reports that were not signed by the site manager; and
- two regions had ticket revenue turned over to the Region Secretary in the form of cash.

Context: Many tournaments are held at numerous sites statewide where the methods of ticket sales vary between in-person or online ticket services. Tournaments are oftentimes staffed with workers who have no prior tournament experience.

Effect: Inaccurate tournament records and reporting of tournament revenue.

Cause: Tournament workers do not take the proper care to accurately record tournament activity or document the method used for the ticket sales. In an effort to expedite tournament revenue collections, cash has been accepted from schools and tournament sites.

Recommendation: We recommend the region secretaries more closely monitor site personnel and tournament managers to ensure that tournament reports are complete, accurate, signed, and submitted for all tournaments. If alternative methods of ticket sales are used, we recommend an explanation be included on the tournament report to support the missing or improper ticket numbers and online ticket sales reports be included with the tournament reports. We further recommend region personnel deposit tournament receipts in a timely manner, accurately record them in the general ledger, and avoid accepting tournament revenues from schools in the form of cash.

View of Responsible Official: Acknowledge

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Client's Response:

The League's Director of Finance has reviewed proper tournament reporting of financial activity with the Region Secretaries. In some cases, Regions used the school sites' "Online Ticket Application" where no hard tickets were issued, but rather tickets were on the patron's phones. Region Secretaries will be instructed to document the method used for ticket sales and to return incomplete forms to each tournament manager and to accept them only when all the required documentation is complete, including documented explanations for the method of the ticket sales.