

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

MINNESOTA STATE HIGH SCHOOL LEAGUE
BROOKLYN CENTER, MINNESOTA

FOR THE YEAR ENDED JULY 31, 2005

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

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

For the Year Ended July 31, 2005



Management Letter

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

This page was left blank intentionally.

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

TABLE OF CONTENTS

	<u>Page</u>
Schedule of Findings and Recommendations	1
Report on Internal Control Over Financial Reporting and Legal Compliance	3

This page was left blank intentionally.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JULY 31, 2005**

I. INTERNAL CONTROLS

PREVIOUSLY REPORTED ITEM NOT RESOLVED

98-1 Segregation of Duties - Regions

Each region has an administrative secretary who is responsible for the accounting functions. Some region secretaries have an assistant who shares some of these duties. However, segregation of accounting functions needed to provide adequate internal accounting control is limited when only one or two individuals are involved.

It is the responsibility of the Minnesota State High School League (MSHSL) and each region committee to continue to be aware of the risks associated with limited segregation of duties. The MSHSL and region committees should continue to monitor financial activity and provide oversight in this area.

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 and the Chairperson 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.

II. 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 one region, a special expense form was not used to document approval and authorization of expenses that meet the criteria for special expenses. In another region, we noted three instances where invoices were not submitted as support with a special expense form.

We recognize that the MSHSL has made progress in the area of special expenses, and we acknowledge the MSHSL for the improvements made. 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 has recently discussed the use of the special expense forms with the Region Secretaries at the December 1, 2005 meeting. Examples of how and when the forms must be used will be communicated to the Region Secretaries again at the April 11, 2006, meeting to be held at the League office.



STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND LEGAL COMPLIANCE

Board of Directors
Minnesota State High School League

We have audited the financial statements of the Minnesota State High School League (MSHSL) as of and for the year ended July 31, 2005, and have issued our report thereon dated November 9, 2005. We did not audit the financial statements of Regions 2A, 3A, 6A, 7A, 8A, 2AA, 3AA, 7AA, and 8AA of the MSHSL, which represent approximately 13 and 24 percent, respectively, of the assets and operating revenue of the Minnesota State High School League. Those financial statements were audited by other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

The management of the MSHSL is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the MSHSL's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the MSHSL's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 98-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

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.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: November 9, 2005