

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, 2023

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

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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
Brooklyn, 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, 2023, and the related notes to the financial statements, which collectively comprise the MSHSL's basic financial statements, and have issued our report thereon dated May 9, 2024. 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 the other auditors' testing of internal control over financial reporting and other matters that are reported on separately by those auditors.

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 a 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 a 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 identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as items 2023-001 to 2023-005, 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 2023-001 to 2023-005. 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, 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

/s/Chad Struss

Julie Blaha
State Auditor

Chad Struss, CPA
Deputy State Auditor

May 9, 2024

Minnesota State High School League Brooklyn Center, Minnesota

Schedule of Findings and Recommendations For the Year Ended July 31, 2023

Financial Statement Findings

2023-001 Internal Control/Segregation of Duties – Regions

Prior Year Finding Number: 2022-001

Year of Finding Origination: 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. 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. Management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transactions into the general ledger and initiate, authorize, record, and process journal entries into the general ledger.

Condition: Due to the limited number of staff, the management of regions lack proper segregation of duties. Regions generally have one staff person who is responsible for recording transactions in the general ledger, depositing receipts, reconciling bank statements, and preparing reports.

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 ability of the regions' employees, in the normal course of performing their assigned functions, to detect misstatements in a timely period.

Cause: Due to the small staff size at each region, it is difficult to properly segregate duties. This arrangement is not unusual for organizations the size of the regions.

Recommendation: We recommend each region committee, in addition to 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 as well as 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 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.*

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2023-002 Tournament Reports

Prior Year Finding Number: 2022-002

Year of Finding Origination: 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. Related tournament expenses are also included 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:

- six 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;
- two regions had tournament reports that were missing;
- three regions had tournament revenue recorded incorrectly in the general ledger;
- five regions had tournament reports in which the ticket numbers did not reconcile to the revenue received or the incorrect ticket prices were used;
- one region had tournament expenses that were paid twice;
- one region had a tournament expense that was paid to workers in the form of cash;
- four regions had tournament reports that were not signed by the site manager; and
- two regions had ticket revenue remitted to the region secretary in the form of cash.

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

Effect: The issues resulted in inaccurate tournament records and incorrect reporting of tournament revenue and related expenses.

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, avoid paying tournament expenses and accepting tournament revenues in the form of cash, and ensure tournament-related expenses are not paid twice.

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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.*

2023-003 Expenses

Prior Year Finding Number: N/A

Year of Finding Origination: 2023

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

Criteria: The MSHSL's Board of Directors Policy Manual and Guidelines requires the use of an approved special expense form for certain expenses that have been incurred. Among other items, the policy requires those claiming reimbursements to use the current Internal Revenue Service mileage rate and requires supporting documentation for expenses claimed.

Condition: During review of expenses paid at each of the regions, the following issues were noted:

- four regions had missing support for expenses paid;
- one region had an expense that did not match the invoice support; and
- two regions had fees paid to independent contractors that didn't match the independent contractor agreements.

Context: Special expenses are those expenses incurred in connection with official functions of the MSHSL or assigned duties of its employees which are not reimbursable through the regular expense regulations. The MSHSL policy identifies specific expenses which are special expenses. Region committees are charged with paying expenses in accordance with MSHSL policies.

Effect: Expenses were not paid in accordance with MSHSL policy.

Cause: Supporting documentation was misplaced or not included in the region's files due to region secretary turnover. Furthermore, independent contractor agreements were not updated to reflect the current rate paid.

Recommendation: We recommend region secretaries more closely monitor expense requests and supporting documentation be maintained for all expenses incurred in accordance with the MSHSL's policy.

Client's Response: *The League's Director of Finance has reviewed the need for proper documentation of all expenses incurred by the Region with all Region Secretaries. Region Secretaries have been instructed to continue to closely monitor expense requests and attach supporting documents for all expenses incurred. The Regions will continue to follow the League's policies related to expenses.*

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2023-004 **Bank Reconciliations**

Prior Year Finding Number: N/A

Year of Finding Origination: 2023

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

Criteria: Reconciliations are control activities designed to provide reasonable assurance that errors will be detected. Reconciliations include identifying and investigating differences between two sets of records. Reconciliations should be performed timely to ascertain that balances are accurate.

Condition: Certain items included in one of the regions' bank reconciliations were incorrect. Reconciling items included incorrect outstanding checks in the amount of \$94,587 and incorrect deposits in transit in the amount of \$38,059.

Context: Reconciliations are a tool to help ensure cash records are complete and accurate and all activity received and disbursed is properly recorded in the general ledger.

Effect: Without proper reconciliations, the region has no assurance that cash recorded in the general ledger is accurately stated. Additional time was required to determine which items should be included in the bank reconciliation at year end.

Cause: The region encountered issues with recording revenues related to online ticketing and expenses paid through a third party which resulted in transactions on the bank reconciliations that should not have been included.

Recommendation: We recommend that the region remove any incorrect outstanding checks or deposits in transit from the bank reconciliations.

Client Response: *The League's Director of Finance has reviewed the need for complete and accurate monthly bank reconciliations with the Region Secretary. A properly completed monthly bank reconciliation will remove any outstanding checks and deposits in transit that are inaccurately recorded in the general ledger. A monthly bank reconciliation will continue to be a required control activity for all Regions. It is recommended that the Region hire an accounting professional to assist with the monthly account reconciliations.*

2023-005 **Revenues and Expenses Incorrectly Recorded in General Ledger**

Prior Year Finding Number: N/A

Year of Finding Origination: 2023

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

Criteria: General ledgers are tools used to record, accumulate, and communicate information about financial balances and activity. The Minnesota State High School League chooses to include the Schedule of Tournament Revenues and Direct Expenses in the Annual Financial Report. For the preparation of this schedule, revenue and expense transactions should be recorded in the general ledger to the level of detail needed for financial reporting purposes.

Condition: One region had revenues and expenses recorded in the general ledger that were not properly identified by activity for reporting on the Schedule of Tournament Revenues and Direct Expenses. The general ledger accounts used during the year were set up as generic accounts within QuickBooks instead of by activity of the region.

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Context: The Schedule of Tournament Revenues and Expenses by activity and region are reported as supplementary information in the MSHSL's Annual Financial Report.

Effect: Since receipts and expenses were not identified by activity within the general ledger accounts, additional procedures were required to identify the activity for each transaction for the year in order to prepare the Schedule of Tournament Revenues and Direct Expenses. Additionally, since one receipt/deposit can include revenue for multiple activities, there is a risk that the tournament revenue was not properly identified.

Cause: The region implemented QuickBooks online and, in the process, the account structure created did not align with the detailed level of tournament reporting by activity.

Recommendation: We recommend the region properly create the account structure within QuickBooks to align with the activities required for reporting on the Schedule of Tournament Revenues and Direct Expenses.

Client Response: *The League's Director of Finance has reviewed the need for a complete and accurate general ledger system including all applicable account and subaccount detail by tournament with the Region Secretary. We believe this was a onetime setup error in QuickBooks and will not be an issue in future years. The Region has hired an accounting professional to assist with the configuration of the general ledger chart of accounts and perform monthly account reconciliations.*