

# State of Minnesota



## Office of the State Auditor

Julie Blaha  
State Auditor

Audit Practice Division

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

Management and Compliance Report

Year Ended July 31, 2024

**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 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, 2024, and the related notes to the financial statements, which collectively comprise the MSHSL's basic financial statements, and have issued our report thereon dated February 28, 2025. Our report includes a reference to other auditors who 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.

**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 2024-001 through 2024-004 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 2024-001 through 2024-004. 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*

Julie Blaha  
State Auditor

February 28, 2025

*/s/Chad Struss*

Chad Struss, CPA  
Deputy State Auditor

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## Schedule of Findings and Recommendations For the Year Ended July 31, 2024

### Financial Statement Findings

#### 2024-001 Internal Control/Segregation of Duties – Regions

**Prior Year Finding Number:** 2023-001

**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 significant 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 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 organizations.

**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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### 2024-002 Tournament Reports

**Prior Year Finding Number:** 2023-002

**Year of Finding Origination:** 2009

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Significant Deficiency

**Criteria:** The MSHSL and Regions require the tournament managers to complete tournament reports to account for tickets sold, tournament revenue, and tournament expenses. The tournament managers should record tournament location, activity, date, beginning and ending ticket numbers, and tickets used on the tournament reports. The tournament managers sign and submit the reports to the Region Secretaries. The Region Secretaries collect and deposit all tournament revenue.

**Condition:** During review of the tournament revenue and reports at each of the Regions, the following issues were noted:

- three 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;
- three Regions had tournament reports that were missing;
- one Region had tournament revenue recorded incorrectly in the general ledger;
- three Regions had tournament reports in which the ticket numbers did not reconcile to the revenue received or the incorrect ticket prices were used;
- five Regions had tournament reports that were not signed by the site manager;
- one Region paid sales tax related to tournament revenue collected, however, the revenue collected was never remitted to the Region;
- one Region had ticket revenue remitted to the Region Secretary in the form of cash; and
- one Region with collections processed through an online ticketing platform had tournament revenue that did not reconcile to the general ledger for all tournaments tested.

**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. Furthermore, in one instance, ticket sales reports could not be obtained from the online ticketing platform due to the subscription being discontinued and access removed.

**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 including the online ticket sales reports with the tournament reports. We recommend the Regions include explanations on the tournament reports to support

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missing or improper ticket numbers, accurately record ticket sales in the general ledger, and avoid accepting tournament revenues in the form of cash. Furthermore, reviews of tournament reports should be performed to ensure all revenue is remitted to the Region.

**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.*

**2024-003**      Expenses

**Prior Year Finding Number:** 2023-003

**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. The policy also defines when travel expense reimbursement can be allowed, the mileage rates to be used, and meal allowances.

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

- three Regions had meal reimbursements with no receipts to support the expenses or special expense forms completed, and two of these meal reimbursements exceeded the meal allowances per the policy;
- one Region Secretary received reimbursement for the full cost of home internet, telephone, and cell phone services;
- two Regions submitted and received reimbursement for the same meal expense;
- one Region paid a tournament worker twice for the same tournament; and
- one Region purchased flowers that did not meet the purposes of the MSHSL.

**Context:** Special expenses are those expenses incurred in connection with the 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 and the completion of special expense forms was overlooked. The Region Secretary decided not to void and cancel the duplicate payment. Reimbursements were paid twice due to a miscommunication between Region Secretaries. Lastly, the Region Secretary was unaware of the requirements for expenses to be only for the purposes of MSHSL.

**Recommendation:** We recommend Region Secretaries more closely monitor expense requests and retain supporting documentation for all expenses incurred in accordance with MSHSL policy. The Region Secretaries should void and cancel duplicate payments in a timely manner. Lastly, the Regions should not reimburse expenses for non-MSHSL purposes.

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**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.*

**2024-004      Tournament Expenses**

**Prior Year Finding Number:** N/A

**Year of Finding Origination:** 2024

**Type of Finding:** Internal Control Over Financial Reporting

**Severity of Deficiency:** Significant Deficiency

**Criteria:** Tournament workers, site managers, and visiting athletic directors who are not paid directly through the school are often paid through a payroll processor. Region Secretaries should compile information from the tournaments and tournament reports to prepare lists of workers including names, events worked, and amounts to be paid. This information should be submitted to the payroll processor who pays each worker only after the Region Secretary's approval.

**Condition:** During review of electronic payments made by the Regions to the payroll processor, we noted one Region where we were unable to reconcile the payments made by the payroll processor and recorded in the general ledger to the supporting documentation and tournament reports.

**Context:** Once payments are processed, the payroll processor provides a payroll register report that includes the individual's name, gross amount paid, deductions, and net amount paid. The Regions reimburse the payroll processor through an electronic funds transfer for the total expense, including processing fees and a monthly agreed upon fee.

Region Secretaries often compile the information from the tournaments reports on spreadsheets and use this to submit to the payroll processor as a form of authorization. At the completion of the audit, the Region Secretary informed us that they have additional information that may assist in the reconciliation.

**Effect:** The external auditor was unable to determine if the payments made and recorded in the general ledger were authorized and supported.

**Cause:** The Region Secretary did not retain the supporting documentation compiled and sent to the payroll processor to authorize payment.

**Recommendation:** We recommend the Region Secretaries retain documentation they compile to support the payments authorized for processing through the payroll processor.

**Client Response:** *The League's Director of Finance has consistently reviewed the need for proper documentation of all expenditure submissions with the Region Secretaries. Given this newest finding, the Director will make this a focus of seasonal meetings with our Region Secretaries to closely monitor their payroll register submissions, verify their accuracy, and maintain documentation of these registers for all payroll submissions as support.*