

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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**MINNESOTA COUNTIES**  
**INFORMATION SYSTEMS**  
**GRAND RAPIDS, MINNESOTA**

FOR THE TWO YEARS ENDED DECEMBER 31, 2004

## **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.

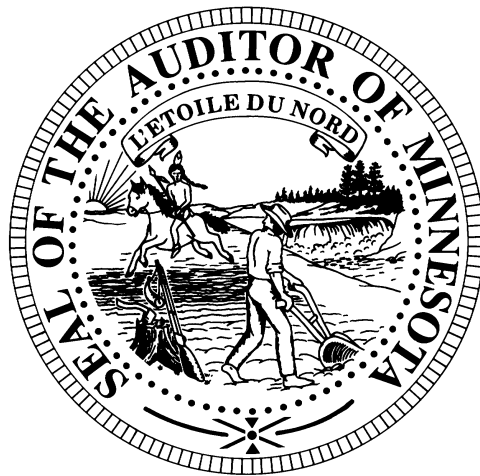
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**MINNESOTA COUNTIES  
INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

**For the Two Years Ended December 31, 2004**



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

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**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

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**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2004

<u>Name</u>	<u>Representing</u>
Board Member	
Kirk Peysar	Aitkin County
Paul G. Gassert	Carlton County
Sharon Anderson	Cass County
Jon Clauson	Chippewa County
Danna Asche	Cook County
Roy Luukkonen	Crow Wing County
Tom Olney	Dodge County
Linda Taylor	Itasca County
Jaci Nagle	Koochiching County
Cindy Heinrich	Lac qui Parle County
Steven R. McMahon	Lake County
Donald Dicklich	St. Louis County
Ramona Doebler	Sherburne County
Executive Director	
Dana Flinck	

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Minnesota Counties Information Systems

We have audited the accompanying basic financial statements of the Minnesota Counties Information Systems (MCIS) as of December 31, 2004, and for the two years then ended, as listed in the table of contents. These financial statements are the responsibility of the MCIS's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MCIS as of December 31, 2004, and the results of its operations and its cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.F. to the financial statements, the MCIS adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended. The Board has elected to implement all provisions of the statement in the current year, except a Management's Discussion and Analysis (MD&A) is not included.

The MD&A is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. The MCIS has not presented a MD&A that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*/s/Pat Anderson*

*/s/Greg Hierlinger*

PATRICIA ANDERSON  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 28, 2005

## **BASIC FINANCIAL STATEMENTS**

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MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA

EXHIBIT A

STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

<b>Assets</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 534,887
Petty cash and change funds	400
Due from other governments	<u>29,966</u>
<b>Total current assets</b>	<b><u>\$ 565,253</u></b>
<b>Noncurrent assets</b>	
Capital assets	\$ 201,660
Less: allowance for depreciation	<u>(136,351)</u>
<b>Net capital assets</b>	<b><u>\$ 65,309</u></b>
<b>Total Assets</b>	<b><u>\$ 630,562</u></b>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable	\$ 26,394
Salaries payable	25,812
Severance payable	41,358
Due to other governments	<u>60,888</u>
<b>Total current liabilities</b>	<b><u>\$ 154,452</u></b>
<b>Long-term liabilities</b>	
Severance payable	<u>85,720</u>
<b>Total Liabilities</b>	<b><u>\$ 240,172</u></b>
<b>Net Assets</b>	
Invested in capital assets	\$ 65,309
Unrestricted	<u>325,081</u>
<b>Total Net Assets</b>	<b><u>\$ 390,390</u></b>

**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT B**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE TWO-YEAR PERIOD ENDED DECEMBER 31, 2004**

**Operating Revenues**

**Charges for services**

Aitkin County	\$	151,724
Carlton County		150,188
Cass County		186,729
Chippewa County		138,923
Cook County		155,065
Crow Wing County		187,002
Dodge County		17,948
Itasca County		198,179
Koochiching County		145,998
Lac qui Parle County		117,765
Lake County		145,359
St. Louis County		259,519
Sherburne County		145,647
Nonmember recorder fees		1,500
Microcomputer support		44,583

<b>Total charges for services</b>	<b>\$</b>	<b>2,046,129</b>
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Miscellaneous		132,498
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<b>Total Operating Revenues</b>	<b>\$</b>	<b>2,178,627</b>
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**Operating Expenses**

Payroll	\$	1,272,186
Employee benefits and payroll taxes		354,763
Professional services		132,579
Contracted services		92,614
Meetings and expense		1,398
Meals and lodging		15,880
Telephone		30,188
Utilities		9,836
Supplies		8,590
Mileage		13,265
Staff training		25,906
Advertising		1,541
Insurance		10,884
Postage		882
Furniture and equipment		89,985
Depreciation		50,372
Miscellaneous		3,362

<b>Total Operating Expenses</b>	<b>\$</b>	<b>2,114,231</b>
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<b>Net Operating Income (Loss)</b>	<b>\$</b>	<b>64,396</b>
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**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

***EXHIBIT B***  
***(Continued)***

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE TWO-YEAR PERIOD ENDED DECEMBER 31, 2004**

<b>Nonoperating Revenues</b>	
Local grant	\$ 4,648
Interest earnings	10,472
	<hr/>
<b>Total Nonoperating Revenues</b>	<b>\$ 15,120</b>
	<hr/>
<b>Change in Net Assets</b>	<b>\$ 79,516</b>
	<hr/>
<b>Net Assets - January 1</b>	<b>310,874</b>
	<hr/>
<b>Net Assets - December 31</b>	<b>\$ 390,390</b>
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**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

**EXHIBIT C**

**STATEMENT OF CASH FLOWS  
FOR THE TWO-YEAR PERIOD ENDED DECEMBER 31, 2004**

<b>Cash Flows From Operating Activities</b>	
Receipts from customers and users	\$ 2,153,926
Payments to suppliers	(397,960)
Payments to employees	(1,636,158)
	<u>119,808</u>
<b>Net cash provided by (used for) operating activities</b>	<b>\$ 119,808</b>
<b>Cash Flows From Noncapital Financing Activities</b>	
State-shared revenue - Public Employees Retirement Association aid	\$ 4,648
	<u>4,648</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Acquisition of capital assets	\$ (38,518)
	<u>(38,518)</u>
<b>Cash Flows From Investing Activities</b>	
Investment earnings received	\$ 10,472
	<u>10,472</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 96,410</b>
<b>Cash and Cash Equivalents at January 1</b>	<b>438,477</b>
	<u>438,477</u>
<b>Cash and Cash Equivalents at December 31</b>	<b>\$ 534,887</b>
	<u>534,887</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>	
Operating income (loss)	\$ 64,396
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used for) operating activities</b>	
Depreciation expense	50,372
(Increase) decrease in due from other governments	9,855
Increase (decrease) in accounts payable	22,676
Increase (decrease) in salaries payable	(17,030)
Increase (decrease) in severance payable	7,821
Increase (decrease) in due to other governments	16,274
Increase (decrease) in deferred revenue	(34,556)
	<u>(34,556)</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>\$ 119,808</b>
	<u>119,808</u>

**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE TWO YEARS ENDED DECEMBER 31, 2004**

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1. Summary of Significant Accounting Policies

The accounting policies of the Minnesota Counties Information Systems (MCIS) conform to generally accepted accounting principles.

A. Financial Reporting Entity

The MCIS is a joint powers governmental organization established in 1975 pursuant to Minn. Stat. § 471.59. Its purpose is to develop and implement computer-based information systems for use by member counties. Members of the MCIS are Aitkin, Carlton, Cass, Chippewa, Cook, Crow Wing, Dodge, Itasca, Koochiching, Lac qui Parle, Lake, St. Louis, and Sherburne Counties.

The MCIS is organized in such a manner that control of the organization remains with the members and the users. This type of organizational structure results in common goals for the MCIS and the member counties because the MCIS is directly accountable to the counties.

The Board of Directors consists of one director and one or two alternate directors from each governmental unit, with each unit having one vote. Officers include the president, vice president, and the secretary/treasurer.

Cass County reports the fiscal transactions of the MCIS in an agency fund on its annual financial statements.

B. Basis of Presentation

The accounts of the MCIS are presented as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basis of Presentation (Continued)

Enterprise funds distinguish operating revenues from nonoperating items. Operating revenues generally result from providing and delivering services in connection with a principal ongoing activity. The principal operating revenues of the MCIS are charges for services to counties relating to their computer-based information systems. All revenues not meeting this definition are reported as nonoperating revenues.

C. Basis of Accounting

The MCIS uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Pursuant to Governmental Accounting Standards Board (GASB) Statement 20, the MCIS has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

D. Budgetary Data

The MCIS adopts estimated revenue and expense budgets on a basis consistent with generally accepted accounting principles. The budget may be amended or modified at any time by the Board of Directors.

E. Assets and Liabilities

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments held by the Cass County Treasurer for the MCIS as part of its pooled cash and investments account. The Cass County pooled investment account operates like a demand account in that the MCIS is free to deposit and withdraw funds at any time without penalty. Investments are stated at fair value.

Fixed Assets

Fixed assets are stated at cost. The MCIS does not capitalize assets with a cost of less than \$5,000.

**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Assets and Liabilities (Continued)

Depreciation

Depreciation on fixed assets is determined using the straight-line method. The estimated useful lives of the assets are:

<u>Classification</u>	<u>Years</u>
Buildings and improvements	25
Furniture and equipment	3 - 5

Due From Other Governments

Due from other governments consists of amounts due from member counties for the current year and adjusted administration charges.

Deferred Revenue

Deferred revenue consists of administrative charges received but not yet earned. No deferred revenue was recognized in the current year.

Vacation and Sick Leave

Under the MCIS personnel policy, employees are granted vacation in varying amounts based on their length of service. Vacation leave earned varies from 12 to 24 days per year. Sick leave earned is 12 days per year.

Unused vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately \$82,125 at December 31, 2004, is available to employees in the event of illness-related absences, and is not paid to them at termination.

**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

F. Restatement

The Board implemented GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Implementation of this new standard required the Board to change the format and contents of the financial statements and retained earnings to be restated as net assets.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes

A. Assets

Deposits and Investments

The MCIS bylaws authorize Cass County (as fiscal agent) under Minn. Stat. §§ 118A.02 and 118A.04 to deposit the MCIS's cash and to invest in certificates of deposit in financial institutions designated by the Cass County Board of Commissioners. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral.

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the types of securities available to a county for investment.

Additional disclosures as required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, are disclosed in the Cass County financial report.



**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

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2. Detailed Notes (Continued)

B. Due From Other Governments

The following amounts are due from member counties for the current year and adjusted administration charges at December 31, 2004.

Cass County	\$	542
Crow Wing County		310
Itasca County		2,699
Lac qui Parle County		6,209
St. Louis County		15,407
Sherburne County		4,799
Total	\$	29,966

C. Capital Assets

A summary of the changes in capital assets for the two-year period ended December 31, 2004, follows:

	Balance January 1, 2003	Increase	Decrease	Balance December 31, 2004
Capital assets depreciated				
Buildings and improvements	\$ 106,373	\$ -	\$ -	\$ 106,373
Furniture and equipment	114,580	38,518	57,811	95,287
Total capital assets depreciated	\$ 220,953	\$ 38,518	\$ 57,811	\$ 201,660
Less: accumulated depreciation for				
Buildings and improvements	\$ 57,087	\$ 8,510	\$ -	\$ 65,597
Furniture and equipment	86,703	41,862	57,811	70,754
Total accumulated depreciation	\$ 143,790	\$ 50,372	\$ 57,811	\$ 136,351
Capital Assets, Net	\$ 77,163	\$ (11,854)	\$ -	\$ 65,309

**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

2. Detailed Notes (Continued)

D. Budgets

The MCIS annually adopts estimated revenue and expense budgets. A summary of the operation budget compared to actual amounts for the two years ended December 31, 2004, is:

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Operating Revenues			
Charges for services	\$ 1,992,157	\$ 2,046,129	\$ 53,972
Miscellaneous	-	132,498	132,498
<b>Total Operating Revenues</b>	<b>\$ 1,992,157</b>	<b>\$ 2,178,627</b>	<b>\$ 186,470</b>
Operating Expenses			
Payroll and payroll taxes	\$ 1,683,558	\$ 1,626,949	\$ 56,609
Other services and charges	551,666	428,320	123,346
Supplies	11,700	8,590	3,110
Depreciation	-	50,372	(50,372)
<b>Total Operating Expenses</b>	<b>\$ 2,246,924</b>	<b>\$ 2,114,231</b>	<b>\$ 132,693</b>
<b>Net Operating Income (Loss)</b>	<b>\$ (254,767)</b>	<b>\$ 64,396</b>	<b>\$ 319,163</b>
Nonoperating Revenues (Expenses)			
State-shared revenue - Public Employees Retirement Association (PERA) aid	\$ -	\$ 4,648	\$ 4,648
Interest on investments	-	10,472	10,472
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ -</b>	<b>\$ 15,120</b>	<b>\$ 15,120</b>
<b>Change in Net Assets</b>	<b>\$ (254,767)</b>	<b>\$ 79,516</b>	<b>\$ 334,283</b>
Net Assets - January 1	310,874	310,874	-
Net Assets - December 31	<b>\$ 56,107</b>	<b>\$ 390,390</b>	<b>\$ 334,283</b>

**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

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2. Detailed Notes (Continued)

E. Liabilities

Severance Payable

In addition to the benefits described in Note 4, the MCIS provides severance benefits to eligible employees. Employees hired prior to January 1, 1987, are entitled to a lump sum severance payout upon retirement in accordance with the personnel policy. As of December 31, 2004, there are four employees entitled to this payout. The long-term severance liability at December 31, 2004, is \$85,720, which is an increase of \$4,287 for the two years ended December 31, 2004.

3. Summary of Significant Contingencies and Other Items

Risk Management

The MCIS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee dental and life; and natural disasters. The MCIS participates in Cass County's health, dental, and life insurance. For all other risk, the MCIS purchases commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

4. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the MCIS are covered by defined benefit plans administered by the PERA of Minnesota. The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

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4. Pension Plans

A. Plan Description (Continued)

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the web at [mnpera.org](http://mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

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4. Pension Plans (Continued)

B. Funding Policy

Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The MCIS makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The MCIS is required to contribute the following percentages of annual covered payroll:

	<u>2003</u>	<u>2004</u>
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	5.53	5.53

The MCIS's contributions for the years ending December 31, 2004, 2003, and 2002, were \$36,455, \$32,212, and \$29,682, respectively, equal to the contractually required contributions for each year as set by state statute.

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**MINNESOTA COUNTIES INFORMATION SYSTEMS  
GRAND RAPIDS, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE TWO YEARS ENDED DECEMBER 31, 2004**

**FINANCIAL STATEMENT AUDIT--INTERNAL CONTROLS**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

96-2 Segregation of Duties

The limited number of office personnel within the Minnesota Counties Information Systems (MCIS) prevents the segregation of accounting functions necessary to ensure adequate internal accounting control. This is not unusual in operations the size of the MCIS, and we realize this is somewhat alleviated by the fact that one of the member counties is the MCIS's fiscal agent.

We recommend management be aware of this condition. The most effective system of control lies in management's knowledge of the MCIS's operations and periodic review of those operations.

Client's Response:

*The MCIS Board is aware of accounting function procedures that MCIS staff and Cass County staff follow in their accounting of MCIS financial matters. The MCIS will continue to emphasize the need for the management of the Board to segregate accounting functions whenever possible and to closely supervise those areas where proper segregation of duties cannot be achieved.*

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PATRICIA ANDERSON  
STATE AUDITOR

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Board of Directors  
Minnesota Counties Information Systems

We have audited the financial statements of the Minnesota Counties Information Systems (MCIS) as of and for the two years ended December 31, 2004, and have issued our report thereon dated October 28, 2005. 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 MCIS 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 MCIS's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 MCIS'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 96-2.

A material weakness is a reportable 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 caused by error or fraud 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.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. We did not test for compliance in contracting and bidding, because the MCIS did not enter into any applicable contracts, and public indebtedness, because the MCIS does not have any bonded debt.

The results of our tests indicate that, for the items tested, the MCIS complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Directors 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: October 28, 2005