State of Minnesota

Office of the State Auditor

Julie Blaha
State Auditor

Minnesota Counties Information Systems
Grand Rapids, Minnesota

Two Years Ended December 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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Minnesota Counties Information Systems
Grand Rapids, Minnesota

Two Years Ended December 31, 2022

Office of the State Auditor

Audit Practice Division
Office of the State Auditor
State of Minnesota

Minnesota Counties Information Systems
Grand Rapids, Minnesota

Table of Contents

Introductory Section

Minnesota Counties Information Systems
Grand Rapids, Minnesota

Organization
December 31, 2022

Name	Representing
Board Member	
Kirk Peysar	Aitkin County
Kyle Holmes	Carlton County
Sandra Norikane	Cass County
Michelle May	Chippewa County
Braidy Powers	Cook County
Amber Peratalo	Itasca County
Tina Von Eschen	Kanabec County
Lindsay Frank	Koochiching County
Angie Djonne	Lac qui Parle County
Linda Libal	Lake County
Nancy Nilsen	St. Louis County
Diane Arnold	Sherburne County
Executive Director	
Lyle Eidelbes	

Financial Section

STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

Independent Auditor's Report

Board of Directors
Minnesota Counties Information Systems
Grand Rapids, Minnesota

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of the Minnesota Counties Information Systems (MCIS) as of and for the two years ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the MCIS as of December 31, 2022, and the changes in financial position, and its cash flows thereof for the two years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the MCIS, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the MCIS' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MCIS' internal control. Accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the MCIS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Schedule of Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits, PERA retirement plan schedules, and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

/s/Julie Blaha

Julie Blaha
State Auditor

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

January 24, 2024

Basic Financial Statements

Minnesota Counties Information Systems
Grand Rapids, Minnesota

Exhibit 1

Statement of Net Position
December 31, 2022

Assets		
Current assets		
Cash and cash equivalents	$	1,336,253
Petty cash and change funds		400
Due from other governments		4,051
Total current assets	**$**	**1,340,704**
Noncurrent assets		
Capital assets		
Depreciable	$	819,033
Less: accumulated depreciation		(321,561)
Net capital assets	**$**	**497,472**
Total Assets	**$**	**1,838,176**
Deferred Outflows of Resources		
Deferred other postemployment benefits outflows	$	9,174
Deferred pension outflows		558,734
Total Deferred Outflows of Resources	**$**	**567,908**
Liabilities		
Current liabilities		
Accounts payable	$	10,306
Salaries payable		19,491
Severance payable		93,553
Total current liabilities	**$**	**123,350**
Noncurrent liabilities		
Other postemployment benefits liability	$	174,911
Net pension liability		966,244
Total noncurrent liabilities	**$**	**1,141,155**
Total Liabilities	**$**	**1,264,505**
Deferred Inflows of Resources		
Deferred other postemployment benefits inflows	$	568
Deferred pension inflows		24,832
Total Deferred Inflows of Resources	**$**	**25,400**
Net Position		
Investment in capital assets	$	497,472
Unrestricted		618,707
Total Net Position	**$**	**1,116,179**

The notes to the financial statements are an integral part of this statement.

Minnesota Counties Information Systems
Grand Rapids, Minnesota

Exhibit 2

Statement of Revenues, Expenses, and Changes in Net Position
For the Two Years Ended December 31, 2022

Operating Revenues		
Charges for services		
Aitkin County	$	250,156
Carlton County		211,996
Cass County		276,245
Chippewa County		214,480
Cook County		216,960
Itasca County		257,459
Kanabec County		75,460
Koochiching County		225,914
Lac qui Parle County		159,445
Lake County		227,893
St. Louis County		473,529
Sherburne County		252,842
Nonmember counties		40,128
Total charges for services	**$**	**2,882,507**
Other revenues		
Miscellaneous operating	$	15,872
Hosting fees		264,160
Total other revenues	**$**	**280,032**
Total Operating Revenues	**$**	**3,162,539**
Operating Expenses		
Payroll	$	1,814,508
Employee benefits and payroll taxes		579,559
Professional services		114,260
Contracted services		224,063
Repair and maintenance		39,681
Meals and lodging		3,238
Telephone		17,179
Utilities		19,823
Supplies		4,804
Mileage		4,306
Staff training		4,964
Insurance		18,388
Postage		118
Software		116,134
Depreciation		79,206
Miscellaneous		8,645
Total Operating Expenses	**$**	**3,048,876**
Net Operating Income (Loss)	**$**	**113,663**

Minnesota Counties Information Systems
Grand Rapids, Minnesota

Exhibit 2
(Continued)

Statement of Revenues, Expenses, and Changes in Net Position
For the Two Years Ended December 31, 2022

Nonoperating Revenues (Expenses)		
PERA rate reimbursement	$	5,564
Interest earnings		11,452
Total Nonoperating Revenues (Expenses)	**$**	**17,016**
Change in Net Position	**$**	**130,679**
Net Position – January 1, 2021		**985,500**
Net Position – December 31, 2022	**$**	**1,116,179**

The notes to the financial statements are an integral part of this statement.

Minnesota Counties Information Systems
Grand Rapids, Minnesota

Exhibit 3

Statement of Cash Flows
For the Two Years Ended December 31, 2022

Cash Flows From Operating Activities		
Receipts from customers and users	$	3,193,569
Payments to suppliers		(574,801)
Payments to employees		(2,442,083)
Net cash provided by (used in) operating activities	**$**	**176,685**
Cash Flows From Noncapital Financing Activities		
PERA rate reimbursement		5,564
Cash Flows From Capital and Related Financing Activities		
Acquisition or construction of capital assets		(43,812)
Cash Flows From Investing Activities		
Investment earnings received		11,452
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**149,889**
Cash and Cash Equivalents at January 1, 2021		**1,186,364**
Cash and Cash Equivalents at December 31, 2022	**$**	**1,336,253**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**113,663**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation expense		79,206
(Increase) decrease in due from other governments		31,030
(Increase) decrease in deferred other postemployment benefits outflows		44,710
(Increase) decrease in deferred pension outflows		(285,628)
Increase (decrease) in accounts payable		807
Increase (decrease) in salaries payable		3,733
Increase (decrease) in due to other governments		(5)
Increase (decrease) in severance payable		103
Increase (decrease) in other postemployment benefits liability		(67,492)
Increase (decrease) in deferred other postemployment benefits inflows		568
Increase (decrease) in deferred pension inflows		(30,013)
Increase (decrease) in net pension liability		286,003
Total adjustments	**$**	**63,022**
Net Cash Provided by (Used in) Operating Activities	**$**	**176,685**

The notes to the financial statements are an integral part of this statement.

Note 1 – Summary of Significant Accounting Policies

The Minnesota Counties Information Systems' (MCIS) financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the two years ended December 31, 2022. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the MCIS are discussed below.

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, Itasca, Kanabec, 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.

Lake County reports the fiscal transactions of the MCIS in a custodial fund on its annual financial statements.

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.

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

Measurement Focus and Basis of Accounting

The MCIS' financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of cash flows.

Budgetary Data

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

Assets, Liabilities, Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments held by the Lake County Treasurer for the MCIS as part of its pooled cash and investments account. The Lake 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. Cash and cash equivalents are stated at fair value.

Capital Assets

Capital assets are recorded at historical cost. The MCIS’ policy is to capitalize assets with a useful life of more than one year and a minimum cost of $5,000.

Depreciation

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

Estimated Useful Lives of Capital Assets

Classification	Years
Buildings and improvements	50
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.

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. The MCIS considers the entire liability to be current at year-end.

Unused vacation and vested sick leave are paid to employees upon termination. Unvested sick leave, approximately $228,440 at December 31, 2022, is available to employees in the event of illness-related absences and is not paid to them at termination.

Other Postemployment Benefits

The MCIS provides certain employees with defined benefit postemployment benefits. To be eligible for those benefits, the employee must have been hired prior to January 1, 2012, and retire from the MCIS meeting the age and service requirements necessary for an annuity under the Public Employees Retirement Association of Minnesota (PERA), or be receiving a disability benefit from PERA.

Pension Plan

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about PERA's fiduciary net position and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, except that PERA's fiscal year-end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The MCIS reports deferred outflows of resources associated with pension plans and other postemployment benefits (OPEB).

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue or reduction of expense) until that time. The MCIS reports deferred inflows of resources associated with pension benefits and other postemployment benefits (OPEB).

Unearned Revenue

Unearned revenue represents advance payments for services that have not been earned as of year-end.

Classification of Net Position

Net position was classified in the following categories:

Investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation.

Restricted – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws, or constitutional provisions or enabling legislation.

Unrestricted – the amount of net position that does not meet the definition of restricted or investment in capital assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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.

Note 2 – Detailed Notes

Assets

Deposits and Investments

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

The types of securities available to a county for investment are authorized by Minn. Stat. §§ 118A.04 and 118A.05.

The MCIS invests funds in Lake County's investment pool. The fair value of the investment is the fair value per share of the underlying portfolio. The MCIS invests in this pool for the purpose of a joint investment with the County in order to enhance investment earnings. There are no redemption limitations.

Additional disclosures, as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed in the Lake County financial report.

Capital Assets

A summary of the changes in capital assets for the two-year period ended December 31, 2022, follows:

Changes in Capital Assets for the Two Years Ended December 31, 2022

	Balance January 1, 2021	Increase	Decrease	Balance December 31, 2022
Capital assets depreciated				
Buildings and improvements	$ 590,489	$ -	$ -	$ 590,489
Furniture and equipment	221,453	43,812	36,721	228,544
Total capital assets depreciated	$ 811,942	$ 43,812	$ 36,721	$ 819,033
Less: accumulated depreciation for				
Buildings and improvements	$ 114,792	$ 23,620	$ -	$ 138,412
Furniture and equipment	164,284	55,586	36,721	183,149
Total accumulated depreciation	$ 279,076	$ 79,206	$ 36,721	$ 321,561
Capital Assets, Net	$ 532,866	$ (35,394)	$ -	$ 497,472

Budgets

The MCIS annually adopts estimated revenue and expense budgets. A summary of the operating budget compared to actual amounts for the two years ended December 31, 2022, is:

Budget-to-Actual Comparison for the Two Years Ended December 31, 2022

	Budget	Actual	Variance with Budget
Operating Revenues			
Charges for services	$ 3,271,835	$ 2,882,507	$ (389,328)
Other revenues	-	280,032	280,032
Total Operating Revenues	$ 3,271,835	$ 3,162,539	$ (109,296)
Operating Expenses			
Payroll and payroll taxes	$ 2,637,193	$ 2,394,067	$ 243,126
Other services and charges	783,853	570,799	213,054
Supplies	5,280	4,804	476
Depreciation	-	79,206	(79,206)
Total Operating Expenses	$ 3,426,326	$ 3,048,876	$ 377,450
Net Operating Income (Loss)	$ (154,491)	$ 113,663	$ 268,154
Nonoperating Revenues (Expenses)			
State-shared revenue – PERA aid	$ -	$ 5,564	$ 5,564
Interest earnings	-	11,452	11,452
Total Nonoperating Revenues (Expenses)	$ -	$ 17,016	$ 17,016
Change in Net Position	$ (154,491)	$ 130,679	$ 285,170
Net Position – January 1, 2021	985,500	985,500	-
Net Position – December 31, 2022	$ 831,009	$ 1,116,179	$ 285,170

Other Postemployment Benefits (OPEB)

Plan Description

The Minnesota Counties Information Systems provides health insurance benefits for certain retired employees under a single-employer, defined benefit, health care plan. The MCIS provides benefits for retirees and spouses as required by Minn. Stat. § 471.61, subd. 2b. Active employees, who retire from the MCIS when eligible to receive a retirement benefit from PERA (or a similar plan) and do not participate in any other health benefits program providing coverage similar to that herein described, are eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the MCIS' health benefits program.

Retirees are required to pay 100 percent of the total group rate. Since the premium is a blended rate determined on the entire active and retiree population, the retirees, whose costs are statistically higher than the group average, are receiving an implicit rate "subsidy." As of January 1, 2021, there are no retirees receiving health benefits from the MCIS' health plan.

The MCIS also provides a one-time lump sum payout to a Health Care Savings Plan for eligible employees. To be eligible for these benefits, the employee must have been hired prior to January 1, 2012, and retire from MCIS meeting the age and service requirements necessary for an annuity under PERA, or be receiving a disability benefit from PERA. Eligible retired employees will be entitled to a one-time lump sum payment to a Health Care Savings Plan provided the employee had a minimum of ten years of service with MCIS. The amount of the lump-sum payment is based on the date of hire and the years of service with MCIS upon retirement, subject to a maximum of $63,000 if hired prior to 1988, $52,500 if hired from 1988 to 2008, and $42,000 if hired from 2009 to 2011.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75. The OPEB plan does not issue a stand-alone financial report.

As of the January 1, 2021, actuarial valuation, the following employees were covered by the benefit terms:

Employees Covered by the OPEB Benefit Terms
As of the January 1, 2021, Actuarial Valuation

Inactive employees or beneficiaries currently receiving benefit payments	-
Active plan participants	11
Total	11

Total OPEB Liability

The MCIS' total OPEB liability of $174,911 was measured as of January 1, 2022, and was determined by an actuarial valuation as of January 1, 2021.

The total OPEB liability in the fiscal year-end December 31, 2022, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

OPEB Actuarial Assumptions and Other Inputs

Inflation	2.00 percent in both 2021 and 2022
Salary increases	Service graded table
Health care cost trend	6.50 percent in 2021, and 6.25 percent in 2022, decreasing 0.25 percent per year to an ultimate rate of 5.00 percent

The current year discount rate is 2.00 percent in 2021 and 2022, which is a change of 0.90 percent. For the current valuation, the discount rate was set by considering published rate information for 20-year high-quality (AA-rated), tax-exempt, general obligation municipal bonds as of the measurement date.

Mortality rates are based on Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2020 Generational Improvement Scale.

Retirement and withdrawal assumptions used are similar to those used to value pension liabilities for Minnesota public employees. The state pension plans base their assumptions on periodic experience studies.

Changes in the Total OPEB Liability

Changes in the Total OPEB Liability
For the Two Years Ended December 31, 2022

		Total OPEB Liability
Balance at December 31, 2020	$	242,403
Changes for the year		
Service cost	$	17,880
Interest		10,544
Assumption changes		(948)
Differences between expected and actual experience		7,080
Benefit payments		(102,048)
Net change	$	(67,492)
Balance at December 31, 2022	$	174,911

OPEB Liability Sensitivity

The following presents the total OPEB liability of the MCIS, calculated using the discount rate previously disclosed, as well as what the MCIS' total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity of the Total OPEB Liability to Changes
In the Discount Rate as of December 31, 2022

	Discount Rate		Total OPEB Liability
1% Decrease	1.00%	$	182,317
Current	2.00%		174,911
1% Increase	3.00%		167,289

The following presents the total OPEB liability of the MCIS, calculated using the health care cost trend previously disclosed, as well as what the MCIS' total OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rate:

Sensitivity of the Total OPEB Liability to Changes
In the Health Care Trend Rates as of December 31, 2022

	Health Care Trend Rate		Total OPEB Liability
1% Decrease	5.25% Decreasing to 4.00%	$	172,235
Current	6.25% Decreasing to 5.00%		174,911
1% Increase	7.25% Decreasing to 6.00%		177,873

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the 24-month period ended December 31, 2022, the MCIS recognized OPEB expense of ($22,214). The MCIS reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB as of December 31, 2022

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability gains	$ 4,248	$ -
Changes in actuarial assumptions	2,683	568
Contributions made subsequent to the measurement date	2,243	-
Total	$ 9,174	$ 568

The $2,243 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Schedule of Amortization of Deferred Outflows and Inflows of Resources Related to OPEB As of December 31, 2022

Year Ended December 31	OPEB Expense Amount
2023	$ 2,568
2024	2,567
2025	1,228

Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2021 and 2022:

2022

None.

2021

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality Tables with MP-2018 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality Tables with MP-2020 Generational Improvement Scale.
- The retirement and withdrawal rates were updated.
- The inflation rates changed from 2.50 percent to 2.00 percent.

- The salary increases rates were changed from a flat 3.00 percent per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 2.90 percent to 2.00 percent.

Defined Benefit Pension Plan

Plan Description

All full-time and certain part-time employees of the MCIS are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees Plan), which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security, and the Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No MCIS employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost-of-living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2021 and 2022. The employer was required to contribute 7.50 percent of annual covered salary in 2021 and 2022.

The MCIS contributions for the General Employees Plan for the years ended December 31, 2021, and 2022, were $69,170 and $66,918, respectively. The contributions are equal to the statutorily required contributions as set by state statute.

Pension Costs

General Employees Plan

At December 31, 2022, the MCIS reported a liability of $966,244 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The MCIS' proportion of the net pension liability was based on the MCIS' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2022, the MCIS' proportion was 0.0122 percent. It was 0.0125 percent measured as of June 30, 2021. The MCIS recognized pension expense of ($190,866) and $302,611 for the years ended December 31, 2021, and 2022, respectively for its proportionate share of the General Employees Plan's pension expense. Total pension expense for the 24-month period ending December 31, 2022, is $111,745.

Legislation requires the State of Minnesota to contribute $16 million to the General Employees Plan annually until September 15, 2031. The MCIS recognized an additional $1,317 and $4,247 as grant revenue and pension expense in 2021 and 2022, respectively, for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

General Employees Plan
Employer's Share of the Net Pension Liability and the State's Related Liability
As of December 31, 2022

The MCIS proportionate share of the net pension liability	$	966,244
State of Minnesota's proportionate share of the net pension liability associated with the MCIS		28,423
Total	$	994,667

The MCIS reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

General Employees Plan
Deferred Outflows of Resources and Deferred Inflows of Resources
As of December 31, 2022

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 8,071	$ 10,488
Changes in actuarial assumptions	223,895	3,655
Difference between projected and actual investment earnings	5,159	-
Changes in proportion	285,861	10,689
Contributions paid to PERA subsequent to the measurement date	35,748	-
Total	$ 558,734	$ 24,832

The $35,748 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

General Employees Plan
Schedule of Amortization of
Deferred Outflows and Inflows of Resources
As of December 31, 2022

Year Ended December 31	Pension Expense Amount
2023	$ 259,631
2024	188,162
2025	(37,022)
2026	87,383

Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Actuarial Assumptions for the Year Ended June 30, 2022

	General Employees Fund
Inflation	2.25% per year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	6.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality table for the General Employees Plan, with slight adjustments. Cost-of-living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan per year through December 31, 2054, and 1.50 percent per year thereafter.

Actuarial assumptions used in the June 30, 2022, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. A review of inflation and investment assumptions dated July 12, 2022, was utilized.

The long-term expected rate of return on pension plan investments is 6.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

Pension Plan Investment Target Allocation and Best Estimates of Geometric Real Rates of Return for Each Major Asset Class

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	33.50%	5.10%
International equities	16.50%	5.30%
Fixed income	25.00%	0.75%
Private markets	25.00%	5.90%

Discount Rate

The discount rate used to measure the total pension liability was 6.50 percent for the General Employees Plan in 2022, which remained consistent with 2021. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2021 and 2022:

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2022

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Pension Liability Sensitivity

The following presents the MCIS' proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the MCIS' proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate As of December 31, 2022

	Proportionate Share of the General Employees Plan		
	Discount Rate		Net Pension Liability
1% Decrease	5.50%	$	1,526,233
Current	6.50%		966,244
1% Increase	7.50%		506,967

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org.

Note 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 the Minnesota Northeast Cooperative Group for health insurance. For all other risk, the MCIS purchases commercial insurance through the Minnesota Counties Intergovernmental Trust. 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.

Required Supplementary Information

Minnesota Counties Information Systems
Grand Rapids, Minnesota

Exhibit A-1

Schedule of Changes in Total OPEB Liability and Related Ratios
Other Postemployment Benefits
December 31, 2022

	2022	2021	2020	2019
Total OPEB Liability				
Service cost	$ 9,072	$ 8,808	$ 8,417	$ 7,134
Interest	3,957	6,587	8,979	9,014
Differences between expected and actual experience	-	7,080	-	-
Changes of assumption or other inputs	-	(948)	6,709	-
Benefit payments	(53,531)	(48,517)	(18,948)	(17,792)
Net change in total OPEB liability	**$ (40,502)**	**$ (26,990)**	**$ 5,157**	**$ (1,644)**
Total OPEB Liability – Beginning	**215,413**	**242,403**	**237,246**	**238,890**
Total OPEB Liability – Ending	**$ 174,911**	**$ 215,413**	**$ 242,403**	**$ 237,246**
Covered-employee payroll	$ 903,163	$ 876,857	$ 857,633	$ 832,653
Total OPEB liability (asset) as a percentage of covered-employee payroll	19.37%	24.57%	28.26%	28.49%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The notes to the required supplementary information are an integral part of this schedule.

Minnesota Counties Information Systems
Grand Rapids, Minnesota

Exhibit A-2

Schedule of Proportionate Share of Net Pension Liability
PERA General Employees Retirement Plan
December 31, 2022

Measurement Date	Employer's Proportion of the Net Pension Liability/ Asset	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with Minnesota Counties Information Systems (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.0122 %	$ 966,244	$ 28,423	$ 994,667	$ 914,640	105.64 %	76.67 %
2021	0.0125	533,806	16,324	550,130	901,600	59.21	87.00
2020	0.0113	680,241	20,853	701,094	840,173	80.96	79.06
2019	0.0117	644,541	20,034	664,575	830,013	77.65	80.23
2018	0.0125	691,688	22,693	714,381	843,027	82.05	79.53
2017	0.0138	882,882	11,104	893,986	896,347	98.50	75.90
2016	0.0134	1,091,306	14,257	1,105,563	682,028	160.01	68.91
2015	0.0084	435,626	N/A	435,626	493,985	88.19	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A – Not Applicable

Minnesota Counties Information Systems
Grand Rapids, Minnesota

Exhibit A-3

Schedule of Contributions
PERA General Employees Retirement Plan
December 31, 2022

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2022	$ 66,918	$ 66,918	$ -	$ 892,240	7.50 %
2021	69,170	69,170	-	922,267	7.50
2020	67,510	67,510	-	900,133	7.50
2019	62,738	62,738	-	836,507	7.50
2018	62,791	62,791	-	837,213	7.50
2017	64,205	64,205	-	856,067	7.50
2016	63,795	63,795	-	850,600	7.50
2015	40,204	40,204	-	536,053	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The MCIS' year-end is December 31.

Note 1 – Other Postemployment Benefits Funded Status

In 2019, the Minnesota Counties Information Systems (MCIS) implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 2 in the notes to the financial statements for additional information regarding the MCIS' other postemployment benefits.

Note 2 – Employer Contributions to Other Postemployment Benefits

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB 75 to pay related benefits.

No changes in actuarial assumptions occurred in 2022.

The following changes in actuarial assumptions occurred in 2021:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality Tables with MP-2018 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2020 Generational Improvement Scale.
- The retirement and withdrawal rates were updated.
- The inflation rate changed from 2.50 percent to 2.00 percent.
- The salary increases rates were changed from a flat 3.00 percent per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 2.90 percent to 2.00 percent.

The following change in actuarial assumptions occurred in 2020:

- The discount rate was changed from 3.80 percent to 2.90 percent.

Note 3 – Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

General Employees Retirement Plan

2022

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019

- The mortality projection scale was changed from Scale MP-2017 to Scale MP-2018.

2018

- The mortality projection scale was changed from Scale MP-2015 to Scale MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21 million in calendar years 2017 and 2018 and returns to $31 million through calendar year 2031. The state's required contribution is $16 million in PERA's fiscal years 2018 and 2019 and returns to $6 million annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Management and Compliance Section

STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

Suite 500
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Saint Paul, MN 55103

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

Board of Directors
Minnesota Counties Information Systems
Grand Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Minnesota Counties Information Systems (MCIS) as of and for the two years ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements, and have issued our report thereon dated January 24, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the MCIS' 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 MCIS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MCIS' 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 MCIS' 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 did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 2022-001, that we consider to be a significant deficiency.

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

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This communication is intended solely for the information and use of the Board of Directors, management, and others within the MCIS, 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

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

January 24, 2024

STATE OF MINNESOTA

Julie Blaha
State Auditor

Office of the State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

Independent Auditor's Report on
Minnesota Legal Compliance

Board of Directors
Minnesota Counties Information Systems
Grand Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the Minnesota Counties Information Systems (MCIS) as of and for the two years ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the MCIS' basic financial statements, and have issued our report thereon dated January 24, 2024.

In connection with our audit, nothing came to our attention that caused us to believe that the MCIS failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the MCIS' noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the Board of Directors and management of the MCIS and the State Auditor, 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

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

January 24, 2024

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Minnesota Counties Information Systems
Grand Rapids, Minnesota

Schedule of Findings and Recommendations
For the Two Years Ended December 31, 2022

Section I – Financial Statement Findings

2022-001 **<u>Internal Control/Segregation of Duties</u>**
Prior Year Finding Number: 2020-001
Repeat Finding Since: 1996
Type of Finding: Internal Control Over Financial Reporting
Severity of Deficiency: Significant Deficiency

Criteria: The Minnesota Counties Information Systems' (MCIS) Board is responsible for establishing and maintaining internal control. This responsibility includes the 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. Also, the Board is responsible for controls over the period-end financial reporting process. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: The limited number of staff of the MCIS results in a lack of segregation of accounting duties necessary to ensure adequate internal accounting control. There are inherent risks in safeguarding the MCIS' assets and the proper recording of its financial activity.

Context: It is not unusual for an organization the size of the MCIS to be limited in the internal control that management can design and implement into the organization.

Effect: Inadequate segregation of duties could adversely affect the ability of the MCIS' employees, in the normal course of performing their assigned functions, to detect misstatements in a timely period.

Cause: The size of the MCIS and its staffing limits the internal control that the MCIS' Board can design and implement into the organization.

Recommendation: We recommend the MCIS' Board and management be mindful that limited staffing causes inherent risks in safeguarding the MCIS' assets and the proper reporting of its financial activity. We recommend the MCIS continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client Response: The MCIS Board is aware of accounting function procedures that MCIS staff and Lake County staff follow in their accounting of MCIS financial matters. 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.