

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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MANAGEMENT AND COMPLIANCE REPORT  
PREPARED AS A RESULT OF THE AUDIT OF THE

**BOARD OF WATER COMMISSIONERS  
OF THE SAINT PAUL REGIONAL WATER SERVICES  
(A COMPONENT UNIT OF THE CITY OF SAINT PAUL)**

YEAR ENDED DECEMBER 31, 2011

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of 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 approximately 730 public pension funds; and

**Tax Increment Financing** - 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 Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**BOARD OF WATER COMMISSIONERS  
OF THE SAINT PAUL REGIONAL WATER SERVICES  
(A COMPONENT UNIT OF THE CITY OF SAINT PAUL)**

**Year Ended December 31, 2011**



**Management and Compliance Report**

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

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**BOARD OF WATER COMMISSIONERS  
OF THE SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA**

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**BOARD OF WATER COMMISSIONERS  
OF THE SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **No**

Noncompliance material to the financial statements noted? **No**

**Federal Awards**

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **No**

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major program is:

Capitalization Grants for Drinking Water State  
Revolving Funds

CFDA #66.468

The threshold for distinguishing between Types A and B programs was \$300,000.

Saint Paul Regional Water Services qualified as low-risk auditee? **No**

**II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

**Preparation of the Schedule of Expenditures of Federal Awards (10-1)**

The Saint Paul Regional Water Services did not adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and Catalog of Federal Domestic Assistance (CFDA) title and number as required under OMB Circular A-133 nor did it prepare the Schedule of Expenditures of Federal Awards (SEFA) without relying on its auditors for assistance.

**Resolution**

The Saint Paul Regional Water Services prepared a SEFA for fiscal year ended December 31, 2011.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

ITEM ARISING THIS YEAR

11-1 Identification of Federal Awards

**Program:** Capitalization Grants for Drinking Water State Revolving Funds (CFDA No. 66.468)

**Criteria:** OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended and the federal programs under which they were received and preparation of the SEFA.

**Condition:** The Saint Paul Regional Water Services incorrectly determined the amount received and expended for the Capitalization Grants for Drinking Water State Revolving Funds federal award on the SEFA. The Regional Water Services identified expenditures of \$6,864,462 when the amount should have been \$8,171,389.

**Questioned Costs:** None.

**Context:** In 2011, the Saint Paul Regional Water Services expended \$8,171,389 in federal awards.

**Effect:** The inability to correctly determine the federal expenditures or to detect significant misstatements in the SEFA increases the likelihood that the federal expenditures would not be fairly reported.

**Cause:** The Saint Paul Regional Water Services prepared its SEFA based on the reimbursement requests sent to the Minnesota Public Facilities Authority from project inception to April 5, 2012. The Saint Paul Regional Water Services erroneously concluded that expenditures submitted on two reimbursement requests in year 2012 were all 2012 activity and excluded them from the SEFA calculation. We determined that \$1,306,927 of expenditures included in these 2012 requests were actually year 2011 activity that should have been included in the SEFA.

**Recommendation:** We recommend that the Saint Paul Regional Water Services' management develop a system and written procedures that will allow staff to correctly identify and classify all federal financial assistance received and expended according to the proper year of activity.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Ruth O'Brien, Financial Services Manager*

Corrective Action Planned:

*The preparation of the Schedule of Expenditures of Federal Awards (SEFA) is not a complex process for the grants reported for the year ending December 31, 2011. Staff that prepared the SEFA this year did not have much experience with the schedule, and the document had not been reviewed prior to the auditors review.*

*Saint Paul Regional Water Services has an existing procedure for handling federal awards, which includes training for staff exposed to the federal award. We have reviewed the instructions with staff and feel confident in the instruction and ability of staff. The various accounts and components of the annual report are reviewed by senior staff prior to submission to the auditor; we will continue with this process in the future. This review may cause delays for the auditors.*

Anticipated Completion Date:

*Preliminary review completed and follow-up completion July 9, 2012.*

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Water Commissioners  
of the Saint Paul Regional Water Services  
Saint Paul, Minnesota

We have audited the basic financial statements of the Saint Paul Regional Water Services, a component unit of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

Management of the Saint Paul Regional Water Services is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Saint Paul Regional Water Services' internal control over financial reporting as a basis for designing our auditing procedures 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 Saint Paul Regional Water Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Saint Paul Regional Water Services' 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Saint Paul Regional Water Services' financial statements will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Saint Paul Regional Water Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### 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 Political Subdivisions*, 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 Political Subdivisions* 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. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding, deposits and investments, public indebtedness, and claims and disbursements because they were tested in conjunction with the audit of the financial statements of the City of Saint Paul.

The results of our tests indicate that for the items tested, the Saint Paul Regional Water Services 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 Water Commissioners of the Saint Paul Regional Water Services, management, others within the Saint Paul Regional Water Services, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 26, 2012

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Water Commissioners  
of the Saint Paul Regional Water Services  
Saint Paul, Minnesota

#### Compliance

We have audited the Saint Paul Regional Water Services' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The Saint Paul Regional Water Services is a component unit of the City of Saint Paul. The Saint Paul Regional Water Services' major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Saint Paul Regional Water Services' management. Our responsibility is to express an opinion on the Saint Paul Regional Water Services' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the Saint Paul Regional Water Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Saint Paul Regional Water Services' compliance with those requirements.

In our opinion, the Saint Paul Regional Water Services complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

#### Internal Control Over Compliance

Management of the Saint Paul Regional Water Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Saint Paul Regional Water Services' internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Saint Paul Regional Water Services' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-1 to be a material weakness.

## Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Saint Paul Regional Water Services as of and for the year ended December 31, 2011, and have issued our report thereon dated June 26, 2012. Our audit was performed for the purpose of forming an opinion on the Saint Paul Regional Water Services' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The SEFA has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Saint Paul Regional Water Services' corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Saint Paul Regional Water Services' corrective action plan and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Water Commissioners of the Saint Paul Regional Water Services, management and others within the Saint Paul Regional Water Services, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

June 26, 2012

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Environmental Protection Agency</b> Passed Through Minnesota Public Facilities Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	<b>\$ <u>8,171,389</u></b>

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**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Saint Paul Regional Water Services, a discrete component unit of the City of Saint Paul. The Regional Water Services' reporting entity is defined in the Note 2.A. to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Saint Paul Regional Water Services under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Regional Water Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Regional Water Services.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through entities.

4. Subrecipients

The Regional Water Services did not pass any federal awards through to subrecipients during the year ended December 31, 2011.

**SAINT PAUL REGIONAL WATER SERVICES  
SAINT PAUL, MINNESOTA**

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5. Reconciliation of the Schedule of Expenditures of Federal Awards to Actual Reimbursements

The Saint Paul Regional Water Services was awarded one federal award in 2011. The award is the Capitalization Grant for Drinking Water State Revolving Funds, which is passed through the Minnesota Public Facilities Authority (MN PFA), a department within the Minnesota Department of Employment and Economic Development. This award is in the form of a Drinking Water Note Payable secured by General Obligation Bonds. It will be repaid over a 20-year period.

Expenditures for the Capitalization Grant for Drinking Water State Revolving Funds during the year ended December 31, 2011, totaled \$8,171,389. Of this amount, \$6,091,190 had been reimbursed by the MN PFA during the year 2011 and \$2,214,579 of FY 2010 expenditures were reimbursed in 2011.

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. The Regional Water Services received no ARRA funding during 2011.