

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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, 2012

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.

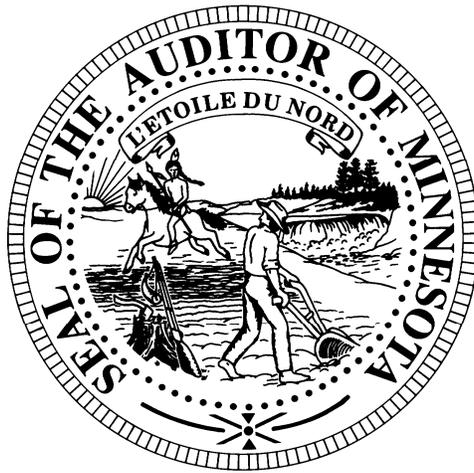
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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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, 2012



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, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

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 \$339,720.

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

ITEM ARISING THIS YEAR

12-1 Monitoring Internal Controls

Criteria: Management is responsible for developing and monitoring its internal controls over the various accounting cycles. The monitoring process includes performing an annual risk assessment of existing controls over significant functions of its accounting system used to produce financial information, documenting the significant internal controls for each transaction cycle/account balance, monitoring those controls on a regular basis, and documenting the monitoring activity performed.

Condition: Management has not yet formalized its assessment of risks in its review of internal controls, nor has it documented the significant internal controls, performed monitoring of those controls on a regular basis, or documented the monitoring activity.

Context: Assessing risk and monitoring transaction cycles and account balances ensures activity is being properly recorded and reported in the financial statements.

Effect: Without monitoring of internal controls, management cannot be assured that internal controls are operating effectively and transactions are processed according to policy.

Cause: Management determined that it was not cost-effective since the current financial accounting system is expected to be replaced as of January 1, 2014.

Recommendation: We recommend that the Saint Paul Regional Water Services document the significant internal controls in the accounting system and formalize a plan to assess and monitor these controls on a regular basis, no less than annually. Significant functions and internal controls include and cover such areas as cash, capital assets, major funding sources, expenditure processing, and payroll. The monitoring of these functions and areas should be documented to show the results of the review, changes required as a result of the risk assessment, and who performed the work.

Client's Response:

We have been in a period of transition with the configuration and implementation of our new Enterprise Resource Planning (ERP) software. We have documented our current and future processes and are configuring the ERP system with internal controls in mind. The Purchasing and Financial Management modules of that system are scheduled to go live January 2014 and the Payroll module will follow at a later date. We are working with the City of Saint Paul to document the significant internal controls in the accounting system and will develop a formalized risk assessment plan to assess and monitor the controls.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEM RESOLVED

Identification of Federal Awards (11-1)

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 Schedule of Expenditures of Federal Awards (SEFA).

Resolution

The Saint Paul Regional Water Services correctly determined the amount received and expended for the Capitalization Grants for Drinking Water State Revolving Funds federal award on the SEFA for the year ended December 31, 2012.

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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*

Independent Auditor's Report

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

We have audited, 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, 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, 2012, and the related notes to the financial statements, which collectively comprise the Saint Paul Regional Water Services' basic financial statements, and have issued our report thereon dated June 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Saint Paul Regional Water Services' internal control over financial reporting to determine the 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 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. A significant deficiency is a deficiency, or 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. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 12-1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Saint Paul Regional Water Services' financial statements are free from 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

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, 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 with the provisions for contracting and bidding, deposits and investments, and public indebtedness because they were tested in conjunction with the audit of the financial statements of the City of Saint Paul.

In connection with our audit, nothing came to our attention that caused us to believe that the Saint Paul Regional Water Services failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 Saint Paul Regional Water Services' noncompliance with the above referenced provisions.

Other Matters

The Saint Paul Regional Water Services' response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The Saint Paul Regional Water Services' response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

This purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Saint Paul Regional Water Services' internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Saint Paul Regional Water Services' internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 7, 2013

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

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 the Saint Paul Regional Water Services' major federal program for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Saint Paul Regional Water Services' major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the Saint Paul Regional Water Services' compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the Saint Paul Regional Water Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Saint Paul Regional Water Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Saint Paul Regional Water Services' internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program 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.

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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of the internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Saint Paul Regional Water Services as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Saint Paul Regional Water Services' basic financial statements. We have issued our report thereon dated June 7, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the 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. Such information 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 information 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 basic financial statements or to the basic 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 as a whole.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 7, 2013

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Transportation		
Passed Through the Metropolitan Council Federal Transit Capital Investment Grants	20.500	\$ 185,309
U.S. Environmental Protection Agency		
Passed Through Minnesota Public Facilities Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	<u>11,138,679</u>
Total Federal Awards		<u>\$ 11,323,988</u>

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**BOARD OF WATER COMMISSIONERS
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SAINT PAUL, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 discretely presented component unit of the City of Saint Paul. The Regional Water Services' reporting entity is defined in 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, 2012. 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 position, 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 agencies.

4. Subrecipients

The Regional Water Services did not pass any federal awards through to subrecipients during the year ended December 31, 2012.

**BOARD OF WATER COMMISSIONERS
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SAINT PAUL, MINNESOTA**

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

The Saint Paul Regional Water Services was awarded two federal awards in 2012. The first is the Federal Transit Capital Investment Grant, which is passed through the Metropolitan Council (Met Council); it is a reimbursement award. The second is a Capitalization Grant for Drinking Water State Revolving Funds, which is passed through the Minnesota Public Facilities Authority (MN PFA), a component unit of the State of Minnesota. 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 Federal Transit Capital Investment Grant during the year ended December 31, 2012, totaled \$185,309. Of this amount, \$45,195 was reimbursed by the Met Council during 2012. Expenditures for the Capitalization Grant for Drinking Water State Revolving Funds during the year ended December 31, 2012, totaled \$11,138,679. Of this amount, \$10,604,448 had been reimbursed by the MN PFA during 2012, and \$102,379 of 2011 expenditures were reimbursed in 2012.

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 2012.