

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, 2010

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, 2010



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, 2010**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the basic financial statements of the Saint Paul Regional Water Services, a component unit of the City of Saint Paul.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of the Saint Paul Regional Water Services and is reported in the "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*." It was not a material weakness.
- C. No instances of noncompliance material to the financial statements of the Saint Paul Regional Water Services were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award programs were reported in the "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."
- E. The Auditor's Report on Compliance for the major federal award programs for the Saint Paul Regional Water Services expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major programs are:
 - Federal Transit Capital Investment Grant CFDA #20.500
 - Capitalization Grants for Drinking Water State
 - Revolving Funds CFDA #66.468

- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Saint Paul Regional Water Services was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

ITEM ARISING THIS YEAR

10-1 Preparation of the Schedule of Expenditures of Federal Awards

The Office of Management and Budget's (OMB) Circular A- 133, *Audits of States, Local Governments, and Non-Profit Organizations, Auditee responsibilities* subpart C.300(a) and (d) requires, "The auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity. The auditee shall prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (SEFA) in accordance with subpart C.310."

The Saint Paul Regional Water Services received, for the first time since fiscal year 1998, federal financial assistance (in the form of grants, loans, loan guarantees, property, cooperative agreements, direct appropriations, or other assistance) over the single audit thresholds in effect since that year. The Saint Paul Regional Water Services therefore lacked ongoing, continued institutional experience with receiving significant federal awards and as an entity, was inexperienced with, and unprepared for, the requirements of OMB Circular A-133. 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.

This condition results in a deficiency in internal control over financial statement preparation and the reporting of federal financial assistance by the Saint Paul Regional Water Services. Since the Saint Paul Regional Water Services has not developed procedures for properly identifying all federal financial assistance, the Saint Paul Regional Water Services relies on its auditors for assistance with preparing the SEFA. Independent auditors cannot be considered part of the Saint Paul Regional Water Services' internal control over financial reporting.

We recommend that the Saint Paul Regional Water Services' management develop a process, including written procedures, that will allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA. Specific measures could include having management inform accounting/finance when a grant award has been received, holding the grant award in a suspense account until properly identified as to the nature and the source of the intergovernmental revenue receipt, and comparing the prior year SEFA to the current year. For each federal award identified, the Saint Paul Regional Water Services should determine the correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act (ARRA) funding is involved. The federal CFDA website is available to assist in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. The Saint Paul Regional Water Services should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

As a result of this finding, Saint Paul Regional Water Services has reviewed its existing procedures and updated them to include specific instructions related to the preparation of the Schedule of Expenditures of Federal Awards and the corresponding notes.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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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, 2010, and have issued our report thereon dated June 21, 2011. 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

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. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as item 10-1, that we consider to be a significant deficiency in internal control over financial reporting. 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 attention by those charged with governance.

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 21, 2011

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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 compliance of the Saint Paul Regional Water Services, a component unit of the City of Saint Paul, Minnesota, 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 each of its major federal programs for the year ended December 31, 2010. The Saint Paul Regional Water Services' major federal programs are 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 each of its major federal programs 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 requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

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.

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.

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

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, 2010, and have issued our report thereon dated June 21, 2011. 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.

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 21, 2011

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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 Grant	20.500	\$ 850,933
U.S. Environmental Protection Agency		
Passed Through Minnesota Public Facilities Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	<u>3,467,702</u>
Total Federal Awards		<u>\$ 4,318,635</u>

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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, 2010**

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. Regional Water's 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 Regional Water under programs of the federal government for the year ended December 31, 2010. 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, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Regional Water.

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

Regional Water did not pass any federal awards through to subrecipients during the year ended December 31, 2010.

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

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

Regional Water was awarded two federal awards in 2010. The first 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.

The second award is the Federal Transit Capital Investment Grant, which is passed through the Metropolitan Council (Met Council); it is a reimbursement award.

Expenditures for the Capitalization Grant for Drinking Water State Revolving Funds during the year ended December 31, 2010, totaled \$3,467,702. Of this amount, \$1,158,070 had been reimbursed by the MN PFA during fiscal year 2010.

Expenditures for the Federal Transit Capital Investment Grant during the year ended December 31, 2010, totaled \$850,933. Of this amount, \$27,521 had been reimbursed by Met Council during the fiscal year 2010. As of December 31, 2010, it was unclear if reimbursement of these expenditures would come from this federal grant or if it would be reimbursed directly from Met Council. These unreimbursed transactions are recorded on the face of the financial statements as a capital contribution and as a receivable.

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. Regional Water received no ARRA funding during 2010.