STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

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

YEAR ENDED DECEMBER 31, 2016
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 150 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 650 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.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

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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 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, 2016, 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 1, 2017.

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.
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 or significant deficiencies.
However, material weaknesses or significant deficiencies may exist that have not been identified.

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 Other Political Subdivisions, promulgated by
the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested
in connection with the audit of the Saint Paul Regional Water Services’ financial statements:
contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements,
miscellaneous provisions, and tax increment financing. Our audit considered all of the listed
categories, except that we did not test for compliance with the provisions for contracting and
bidding or deposits and investments because they are tested in conjunction with the audit of the
financial statements of the City of Saint Paul. We did not test for the provisions for tax increment
financing because the Saint Paul Regional Water Services does not administer any tax increment
financing districts.

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 Other 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.
Purpose of This Report

The 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 Other 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          /s/Greg Hierlinger

REBECCA OTTO          GREG HIERLINGER, CPA
STATE AUDITOR          DEPUTY STATE AUDITOR

June 1, 2017