

# State of Minnesota



## Office of the State Auditor

Julie Blaha  
State Auditor

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**Board of Water Commissioners  
of the City of Saint Paul  
d/b/a Saint Paul Regional Water Services  
(A Component Unit of the  
City of Saint Paul, Minnesota)**

Management and Compliance Report

Year Ended December 31, 2021

## 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 100 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 Minnesota’s local 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 City of Saint Paul  
d/b/a Saint Paul Regional Water Services  
(A Component Unit of the  
the City of Saint Paul, Minnesota)**

Year Ended December 31, 2021



**Office of the State Auditor**

Management and Compliance Report

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

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

Independent Auditor's Report

Members of the Board of Water  
Commissioners of the City of Saint Paul  
d/b/a 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 Board of Water Commissioners of the Saint Paul Regional Water Services, d/b/a Saint Paul Regional Water Services, a component unit of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2021, 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 December 16, 2022.

**Report on 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 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 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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 attention by 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. However, material weaknesses or significant deficiencies may exist that were not identified.

## **Report on 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 financial statements. 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**

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 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 Saint Paul Regional Water Services' noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

## **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/Julie Blaha*

JULIE BLAHA  
STATE AUDITOR

*/s/Dianne Syverson*

DIANNE SYVERSON, CPA  
DEPUTY STATE AUDITOR

December 16, 2022



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND  
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

Members of the Board of Water  
Commissioners of the City of Saint Paul  
d/b/a Saint Paul Regional Water Services  
Saint Paul, Minnesota

**Report on Compliance for the Major Federal Program**

***Opinion on the Major Federal Program***

We have audited the Saint Paul Regional Water Services' compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *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, 2021. 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.

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, 2021.

***Basis for Opinion on the Major Federal Program***

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Saint Paul Regional Water Services and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Saint Paul Regional Water Services' compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Saint Paul Regional Water Services' federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Saint Paul Regional Water Services' compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Saint Paul Regional Water Services' compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material noncompliance, 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 Saint Paul Regional Water Services' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and
- obtain an understanding of the Saint Paul Regional Water Services' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Saint Paul Regional Water Services' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 a 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 a 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 attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the Saint Paul Regional Water Services as of and for the year ended December 31, 2021, and have issued our report thereon dated December 16, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements as a whole.

*/s/Julie Blaha*

JULIE BLAHA  
STATE AUDITOR

*/s/Dianne Syverson*

DIANNE SYVERSON, CPA  
DEPUTY STATE AUDITOR

December 16, 2022

**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, 2021**

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

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

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

**Federal Awards**

Internal control over the major program:

- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for the major federal program: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal program is:

<b>Assistance Listing Number</b>	<b>Name of Federal Program or Cluster</b>
66.468	Drinking Water State Revolving Fund Cluster

The threshold for distinguishing between Types A and B programs was \$750,000.

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

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

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

None.

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

None.

**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, 2021**

<b>Federal Grantor Pass-Through Agency Program or Cluster Title</b>	<b>Assistance Listing Number</b>	<b>Pass-Through Grant Numbers</b>	<b>Expenditures</b>
<b>U.S. Environmental Protection Agency</b>			
Passed through Minnesota Public Facilities Authority			
Drinking Water State Revolving Fund Cluster			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-DWRF-L-042-FY21	\$ 8,592,961
Capitalization Grants for Drinking Water State Revolving Funds	66.468	MPFA-DWRF-G-001-FY22	<u>238,000</u>
<b>Total U.S. Environmental Protection Agency</b>			<b><u>\$ 8,830,961</u></b>
The Saint Paul Regional Water Services did not pass any federal awards through to subrecipients for the year ended December 31, 2021.			
<b>Totals by Cluster</b>			
Total expenditures for Drinking Water State Revolving Fund Cluster			\$ 8,830,961

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2021

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1. Summary of Significant Accounting Policies

A. 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, Minnesota. The Saint Paul Regional Water Services' reporting entity is defined in Note 2.A to the financial statements.

B. 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, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Saint Paul Regional Water Services, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Saint Paul Regional Water Services.

Expenditures reported on the schedule are reported on the full accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. De Minimis Cost Rate

The Saint Paul Regional Water Services has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

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3. Reconciliation of Schedule of Expenditures of Federal Awards to Actual Reimbursements

The Saint Paul Regional Water Services had federal expenditures under two federal awards in 2021. The first is a Capitalization Grant for Drinking Water State Revolving Funds, which is passed through the Minnesota Public Facilities Authority, a component unit of the State of Minnesota. This award is in the form of a Drinking Water Note Payable secured by Net Revenues of the Saint Paul Regional Water Services. It will be repaid over a 20-year period.

The second award is a Principal Forgiveness Grant of \$250,000 to be disbursed by June 30, 2024, for approximately 128 lead service lines. The Principal Forgiveness Grant is not required to be repaid with Saint Paul Regional Water Services' adherence to the terms of the agreement dated July 7, 2021.

Expenditures for the Capitalization Grants for the Drinking Water State Revolving Funds during the year ended December 31, 2021, totaled \$8,830,961. Reimbursements during fiscal year 2021 totaled \$5,928,113; \$103,540 was for 2020 expenditures; the remaining \$5,824,573 was for 2021 expenditures; \$74,000 for the Forgiveness Lead Line Replacement Grant and \$5,750,573 for the Drinking Water Note Payable.