

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT FOR

**RAMSEY/WASHINGTON COUNTY RESOURCE
RECOVERY PROJECT BOARD**

FOR THE YEAR ENDED DECEMBER 31, 2006

Description of the Office of the State Auditor

The mission of the State Auditor's Office 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.

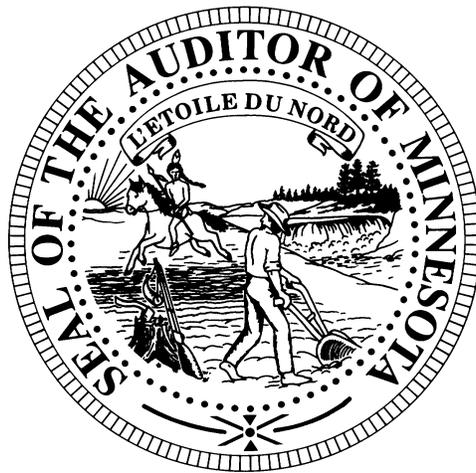
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**RAMSEY/WASHINGTON COUNTY RESOURCE
RECOVERY PROJECT BOARD**

For the Year Ended December 31, 2006



Management and Compliance Report

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

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**RAMSEY/WASHINGTON COUNTY RESOURCE
RECOVERY PROJECT BOARD**

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**RAMSEY/WASHINGTON COUNTY RESOURCE
RECOVERY PROJECT BOARD**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006**

INTERNAL CONTROL

ITEM ARISING THIS YEAR

06-1 Material Adjustment to the 2005 Financial Statements

The Board restated its 2005 financial statements to reduce expenses and increase net assets by \$723,366. Starting December 1, 2004, per contractual agreement, the monthly service fee charged to the Board by NRG was to be reduced over 24 months by the unspent bond proceeds held by US Bank. This was not done, resulting in monthly overpayments to NRG of \$55,644 and an overstatement of expenses reported in the 2004 and 2005 financial statements. During 2006, the Project Board received the entire unspent bond proceeds as part of the contract settlement with NRG. Internal accounting control should be strengthened over the review and approval of transactions to ensure they are in accordance with applicable contractual agreements.

We recommend that management improve its internal controls over the review and approval of transactions to ensure they reflect applicable contractual agreements.

Client's Response:

This prior period adjustment was the result of not receiving a credit the project was entitled to under a complicated payment agreement between the project and NRG. The project is now operating under a new agreement that substantially reduces the risk of payment errors occurring in the future.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Ramsey/Washington County Resource
Recovery Project Board

We have audited the financial statements of the governmental activities and the General Fund of the Ramsey/Washington County Resource Recovery Project Board as of and for the year ended December 31, 2006, and have issued our report thereon dated May 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ramsey/Washington County Resource Recovery Project Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the

Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control over financial reporting. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 06-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Ramsey/Washington County Resource Recovery Project Board's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

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 Local Government*, 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 Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because there is no long-term debt outstanding.

The results of our tests indicate that, for the items tested, the Ramsey/Washington County Resource Recovery Project Board complied with the material terms and conditions of applicable legal provisions.

The Ramsey/Washington County Resource Recovery Project Board's written response to the significant deficiency identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Ramsey/Washington County Resource Recovery Project Board 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

May 2, 2007

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR