

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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MANAGEMENT AND COMPLIANCE REPORT FOR

**WESTERN LAKE SUPERIOR SANITARY DISTRICT**  
**DULUTH, MINNESOTA**

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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**WESTERN LAKE SUPERIOR SANITARY DISTRICT  
DULUTH, MINNESOTA**

**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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**WESTERN LAKE SUPERIOR SANITARY DISTRICT  
DULUTH, MINNESOTA**

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**WESTERN LAKE SUPERIOR SANITARY DISTRICT  
DULUTH, MINNESOTA**

**Schedule 1**

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

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

- A. Our report expresses an unqualified opinion on the basic financial statements of the Western Lake Superior Sanitary District.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of the Western Lake Superior Sanitary District and are 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*." One of the significant deficiencies, item 06-1, is considered to be a material weakness.
- C. No instances of noncompliance material to the financial statements of the Western Lake Superior Sanitary District were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for the Western Lake Superior Sanitary District 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 program is:
  - Capitalization Grants for State Revolving Funds                      CFDA #66.458
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Western Lake Superior Sanitary District was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

ITEMS ARISING THIS YEAR

06-1 Operating Cash Checking Account Reconciliation

At the time of our current audit, the Western Lake Superior Sanitary District had not reconciled the operating cash checking account since April 2006. Preparing bank reconciliations is a key internal control over the area of cash. Under the Federal Check 21 Act, timely review of bank statements and check images is necessary to detect problem checks before the actual paper checks are destroyed, and also because there is a one-year statute of limitations for losses arising out of the Check 21 process.

We recommend the District reconcile all bank accounts on a monthly basis. Ideally, the reconciliation should be performed by someone who has limited duties in the cash receipts and cash disbursements areas, and should be reviewed by management.

Client's Response:

*The District has implemented monthly checking account reconciliations into the processing cycle. These reconciliations will be reviewed by the Director of Finance monthly. We are currently in the process of evaluating staffing levels in the Finance Department which will allow us to implement reconciliations by someone with limited duties relative to processing daily cash receipts and disbursements.*

06-2 Journal Entries

Journal entries are made on the general ledger system by the Director of Finance and the Senior Accountant. The journal entries made by these employees are not reviewed or approved by anyone else. Other Finance Department staff have access to the journal entry function but are not authorized to make journal entries.

The ability to make journal entries on the general ledger system is a powerful function. It allows those employees with access to the journal entry function to make changes to general ledger accounts.

To prevent abuse of this function, we recommend the Director of Finance review the access to the journal entry function to determine if there is a logical need for that access for all employees who have access. We also recommend a procedure be established to require review and approval of journal entries by someone other than the person making the journal entries. This approval could be documented by signature on a journal entry form or a printed copy of the journal entry made. There should be supporting documentation attached to the journal entry or sufficient explanation on the journal entry to explain why the journal entry is being made and who is making the journal entry. Journal entries should be filed in a manner which allows for their review should questions arise. A report should be generated that lists all journal entries made to the general ledger system, and this report should be reviewed periodically by the person charged with review and approval of journal entries. Review of this report would be to ensure that no journal entries have been made which have not been submitted for review and approval and journal entries are not being made by staff who are not authorized to make journal entries.

Client's Response:

*The District is currently at the start of an upgrade to the Lawson financial software. There is enhanced security which will be totally reviewed and implemented to restrict access to necessary functions only. We are also in the process of implementing a review process for journal entries made. The Director of Finance is reviewing entries made by other Finance Department staff and the Manager of Business Services is reviewing those entries made by the Director of Finance. Upon filling the accountant position, the Director of Finance would be removed from making journal entries and would review all journal entries made on a monthly basis.*

06-3 Preparation of Financial Statements

The District is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the District's management. Financial statement preparation in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records); and (2) preparing and reporting appropriate financial statements, including the related notes to the financial statements.

As is the case with many small and medium-sized entities, the District has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition was caused by the District's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare the financial statements internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP.

We recommend District staff obtain the training and expertise to internally prepare its annual financial statements in accordance with GAAP. If the District still intends to have the state auditors assist in preparation, then at a minimum, they must identify and train individuals to obtain the expertise that can sufficiently review, understand, and approve the District's financial statements, including notes.

Client's Response:

*It has been a long standing practice for the auditors to make some of the year-end entries necessary for completion of the WLSSD annual financial statements. We recognize that changes in auditing standards no longer allow such a practice. The current WLSSD staff is obtaining the training and expertise necessary to complete preparation of the annual financial statements in accordance with GAAP.*

06-4 Audit Adjustments

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 of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls.

During our audit, we proposed material adjustments that resulted in significant changes to the District's financial statements. The most significant adjustments were to adjust depreciation to actual, record additional receivables and payables, and to capitalize interest on construction. The audit adjustments were caused in part because the retirement of accounting staff during the audit year resulted in the temporary loss of

financial statement preparation expertise. New accounting staff were not familiar with governmental accounting principles and required more guidance by auditors to provide accurate and reliable information and to account for certain more complex accounting transactions. The inability to detect a material misstatement in the financial statements increases the likelihood that the financial statements would not be fairly presented.

We recommend that the District implement internal controls over financial reporting to detect misstatements in the financial statements. The controls should include preparation and review of all workpapers necessary to adjust the financial statements in accordance with generally accepted accounting principles. District staff should post all necessary adjusting entries to the general ledger system prior to the audit. The draft financial statements should be reviewed by a qualified individual to identify potential misstatements.

Client's Response:

*The current WLSSD staff is obtaining the training and expertise to better implement internal controls over financial reporting which will ensure detection of misstatements in the financial statements. This process will involve the Director of Finance reviewing all of the work papers and ensuring posting of all necessary adjusting entries prior to the start of the audit.*

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

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

05-2 Bidding

Minn. Stat. § 471.345 requires that certain contracts estimated to exceed \$50,000 be solicited by a sealed bid process. In our prior audit, we noted an instance where the District had solicited quotes for repairs which exceeded \$50,000 rather than soliciting sealed bids as required by the statute.

*Schedule 1*  
*(Continued)*

During the current audit, we noted several purchases which exceeded \$50,000, but which were not solicited by sealed bids. One contract was for the purchase of two pumps totaling \$191,666, and the other contract was for the purchase of a valve repair kit for \$77,164. Both of these items were purchased directly from vendors because certain equipment was required and they were the only known supplier for the equipment.

Minn. Stat. § 471.36 allows for the purchase of noncompetitive types and kinds of supplies and equipment. This provision of the statute however, only exempts the District from the provisions of Minn. Stat. § 471.35, which is the provision that requires that specifications not be prepared so restrictively that only one type or kind of equipment will meet the specifications. It does not exempt the District from having to solicit bids.

We recommend the District solicit bids for all contracts requiring bids which are expected to exceed \$50,000.

Client's Response:

*The referenced non-bid purchases of two pumps totaling \$191,666 and a valve repair kit for \$77,164 were not bid due to our need to purchase spare pumps for both the Scanlon and Knowlton Creek pumping stations identical to the pumps already operating. This equipment was only supplied by one manufacturer as was the repair kit designed to service the two new spares and the identical pumps already operating at these two locations. The purchase of these spares was required to improve our operating reliability through application of a rotating spare allowing one pump to be repaired without impacting the operation. In this application, there were no other suppliers of these pumps or the repair kit and thus we did not bid due to this being a noncompetitive/sole source purchase.*

*In a review of Minn. Stat. § 471.35 and the amendments to this statute adopted in 1969, it appears that the legislature inadvertently deleted key language from the original legislation which did not require bidding if the supplies and equipment could only be procured from a sole source. It is our belief that the situation cited did not require bidding; however, because the auditor disagrees, we will bid similar purchases of supplies and equipment above the \$50,000 threshold regardless of the sole source reality.*

ITEM ARISING THIS YEAR

06-5

Prompt Payment

Minn. Stat. § 471.425 requires governmental units to pay its vendors according to the terms of the contract, or if no contract terms apply, within the standard payment period, which for the District would be within 35 days of the receipt of the invoice.

For 11 of 26 vendor invoices we reviewed during the current audit, payment was not made within this standard payment period.

We recommend the District comply with Minn. Stat. § 471.425 and make vendor payments within the standard payment period. If there is a good faith dispute over the invoice, this should be noted on the invoice.

Client's Response:

*The District is currently evaluating all invoices that are past the 35 day payment rule and documenting the purchaser, the approver and any systematic problem for late payment. This will become the basis for additional training and procedural improvements to improve the timing of processing paperwork. We have also been flowcharting the accounts payable process to assign responsibilities for keeping the paper flow moving and bringing any problem areas to light. We are evaluating the average number of days for paper flow in the system and establishing measures to ensure compliance with Minn. Stat. § 471.425.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Investments (05-1)**

Minn. Stat. § 118A.04, subd. 4, allows the District to invest in commercial paper issued by U.S. corporations or their Canadian subsidiaries. At December 31, 2005, the Western Lake Superior Sanitary District had invested \$2,152,420 in commercial paper in a company not incorporated in the U.S. or Canada.

**Resolution**

During the current audit, we noted no instances where commercial paper of foreign corporations was purchased.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

06-6 Investment Policy

The District's investment policy has diversification limits which restrict the amount of commercial paper which can be held to 50 percent of the investment portfolio and the amount of money market mutual funds to 10 percent of the portfolio. The policy also limits the amount of commercial paper that can be held with any one issuer to 10 percent of the portfolio.

At December 31, 2006, the District held 73 percent of the investment portfolio in commercial paper and 22 percent in money market mutual funds. Also, the District had 12 percent of its investment portfolio invested with a single issuer. These investments exceeded the limits set by the investment policy.

We recommend the District comply with its investment policy and limit its investments to the maximum percentages allowed by the policy. If the District has changed its diversification goals, the policy should be revised.

Client's Response:

*The District is in the process of reviewing the investment policy and the investment and portfolio guidelines to ensure the diversification of investments is consistent with the investment policy and guidelines.*

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans; and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

*Schedule 1*  
*(Continued)*

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

Some of the issues that the District Board will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the Board will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the Board determines that the establishment of a trust is desirable in order to fund the OPEB, the Board will have to wait until legislation is enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard; and
- in order to determine annual costs and liabilities that need to be recognized, the Board will have to decide whether to hire an actuary.

If applicable for the Western Lake Superior Sanitary District, GASB Statements 43 and 45 would be implemented for the years ending December 31, 2007 and 2008, respectively.

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REBECCA OTTO  
STATE AUDITOR

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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***

Board of Directors  
Western Lake Superior Sanitary District

We have audited the financial statements of the Western Lake Superior Sanitary District as of and for the year ended December 31, 2006, and have issued our report thereon dated June 19, 2007. 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 Western Lake Superior Sanitary District's 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 Western Lake Superior Sanitary District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 to 06-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or 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 District's internal control.

Our consideration of the 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 the 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 as item 06-1 to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Western Lake Superior Sanitary District's 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 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 six main 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.

The results of our tests indicate that, for the items tested, the Western Lake Superior Sanitary District complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as items 05-2 and 06-5.

Also included in the Schedule of Findings and Questioned Costs are management practices comments and other items for consideration. We believe these recommendations and information to be of benefit to the Western Lake Superior Sanitary District and are reported for that purpose.

The Western Lake Superior Sanitary District's written responses to the significant deficiencies, material weaknesses, legal compliance, and management practice findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, 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 19, 2007

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# STATE OF MINNESOTA

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### **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Western Lake Superior Sanitary District

#### Compliance

We have audited the compliance of the Western Lake Superior Sanitary District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2006. Western Lake Superior Sanitary District's major federal program is 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 its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's 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 Western Lake Superior Sanitary District's 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 on the District's compliance with those requirements.

In our opinion, Western Lake Superior Sanitary District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

#### Internal Control Over Compliance

The management of Western Lake Superior Sanitary District 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 District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 District's internal control over compliance.

A control deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Western Lake Superior Sanitary District's internal control.

Our consideration of the internal control over compliance 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 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 Western Lake Superior Sanitary District as of and for the year ended December 31, 2006, and have issued our report thereon dated June 19, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Western Lake Superior Sanitary District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 Directors, management, 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 19, 2007

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**WESTERN LAKE SUPERIOR SANITARY DISTRICT  
DULUTH, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grant Number</b>	<b>Expenses</b>
<b>U.S. Environmental Protection Agency</b>			
Passed Through Minnesota Department of Employment and Economic Development			
Capitalization Grants for State Revolving Funds	66.458		
Flocculation Tanks Project		MPFA-05-0072-R-FY06	\$ 812,625
<b>U.S. Department of Defense - Corps of Engineers</b>			
Direct			
Northeastern Minnesota Environmental Infrastructure and Resource Development Program			
Gary Surge Basin Project	12.***	None	24,697
<b>Total Federal Awards</b>			<b>\$ 837,322</b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Western Lake Superior Sanitary District. The awards include amounts spent or accrued on projects through December 31, 2006. These amounts are capitalized in capital assets on the financial statements.
2. The expenditures on this schedule are on the accrual basis of accounting used by the Western Lake Superior Sanitary District.
3. During 2006, the District did not pass any federal money to subrecipients.