



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3695
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

March 23, 2009

To: Government Operations and Audit Committee

From: Bob Christianson

Subject: Separately issued audit reports

The following is a listing of the audits performed by the Department of Legislative Audit and the audit reports issued by the Department of Legislative Audit and by Independent Public Accountants through March 23, 2009. I have attached copies of all findings issued as a part of the audits. I have not attached copies of the audit reports listed below as they are out on our website

Reports issued for Fiscal Year 2008 by the Department of Legislative Audit:

1. Department of Tourism and State Development

Report covers: Revolving Economic Development and Initiative Fund, an enterprise fund of the State of South Dakota.

Opinion: Unqualified

Written findings: Yes. *Pages 7-8*

1. Controls were inadequate to ensure the accuracy of amounts reported in the financial statements including the identification and correction of reporting errors and omissions.

2. South Dakota Economic Development Finance Authority

Report covers: Audit of the Economic Development Finance Authority, a business-type component unit of the State of South Dakota.

Opinion: Unqualified

Written findings: Yes. *Pages 9-11*

1. Controls were inadequate to ensure the accuracy of amounts reported in the financial statements including the identification and correction of reporting errors and omissions.
2. Controls in place were not adequate to ensure that the information contained in Federal reports was accurate.

3. South Dakota Building Authority

Report covers: Audit of the South Dakota Building Authority, a business-type component unit of the State of South Dakota.

Opinion: Unqualified

Written findings: None

4. Education Enhancement Funding Corporation

Report covers: Audit of the Education Enhancement Funding Corporation, a business-type component unit of the State of South Dakota.

Opinion: Unqualified

Written findings: None

5. Bureau of Finance and Management

Report covers: Audit of Cement Plant Retirement Fund, a pension fund of the State of South Dakota.

Opinion: Unqualified

Written findings: None

6. South Dakota Lottery

Report covers: South Dakota Lottery Fund, an enterprise fund of the State of South Dakota.

Opinion: Unqualified

Written findings: None

7. South Dakota Board of Water and Natural Resources

Report covers: Clean Water State Revolving Fund, an enterprise fund of the State of South Dakota.

Opinion: Unqualified

Written findings: None

8. South Dakota Board of Water and Natural Resources

Report covers: Drinking Water State Revolving Fund, an enterprise fund of the State of South Dakota.

Opinion: Unqualified

Written findings: None

9. South Dakota Investment Council

Report covers: Audit of certain portfolios managed by the Investment Council including: Cash Flow Portfolio, Dakota Cement Trust Portfolio, Cement Plant Retirement Portfolio, Education Enhancement Trust Portfolio, and, Health Care Trust Portfolio.

Opinion: Unqualified

Written findings: None

Reports still in progress:

- South Dakota Science and Technology Authority
- South Dakota Comprehensive Annual Financial Report
One audit finding has been issued so far relating to the Department of Revenue and Regulation. See page 15

As a part of the FY2008 South Dakota Single Audit, the following federal grant programs were audited by the Department of Legislative Audit.

Office of the Governor

- Community Development Block Grant – *no audit findings*

Finance Authority

- Intermediary Relending Program – *see audit finding under the financial statement audit*

Department of Human Services

- Block Grants for Prevention and Treatment of Substance Abuse - *no audit findings*
- Rehabilitation Services-Vocational Rehabilitation Grants to States – *audit finding, see pg 12-14*
- Cost Principles for State and Local Governments - *audit finding, see pages 12-14*

Department of Environment and Natural Resources

- Capitalization Grants for Clean Water State Revolving Funds - *no audit findings*
- Capitalization Grants for Drinking Water State Revolving Funds - *no audit findings*

The following compliance audits are still in progress:

Department of Education

- Child and Adult Care Food Program
- Child Nutrition Cluster
This includes the School Breakfast Program, National School Lunch Program, Special Milk Program for Children, and, Summer Food Service Program for Children.

Department of Game, Fish and Parks

- Title VI – Missouri River Implementation

Department of Social Services

- Child Support Enforcement
- Foster Care – Title IV – E
- Children’s Health Insurance Program
- Medicaid

Universities

Student Financial Assistance Cluster

Other audit performed by the Department of Legislative Audit.

1. South Dakota High School High School Activities Association

Report covers: Financial statements of the South Dakota High School High School Activities Association

Opinion: Unqualified

Written findings: Yes. *See pages 27-29*
1. The South Dakota High School Activities Association failed to remit to the State of South Dakota – State Treasurer unclaimed property, in the form of outstanding checks in the amount of \$2,598.36, in violation of the South Dakota Codified Laws (SDCL) Chapter 43-41B. . . .

The following reports were issued for Fiscal Year 2008 by Independent Public Accountants (IPA):

2. South Dakota Board of Directors for Educational Telecommunications

Report covers: South Dakota Board of Directors for Educational Telecommunications an agency of the State of South Dakota and a special revenue fund of the South Dakota reporting entity.

IPA: Quam & Berglin, CPA's

Opinion: Unqualified

Written findings: None

3. South Dakota Department of Revenue and Regulation

Report covers: South Dakota Real Estate Commission, an enterprise fund of the State of South Dakota

IPA: East, Vander Woude, Grant & Co., P.C.

Opinion: Unqualified

Written findings: Yes. *See page 16*
Auditor drafting of financial statements and related footnote disclosures.

4. South Dakota Department of Agriculture

Report covers: Corn Check-Off Fund of the South Dakota Corn Utilization Council, a special revenue fund of the State of South Dakota.

IPA: Eide Bailly

Opinion: Unqualified

Written findings: Yes. *See pages 17-18*

1. There is a lack of segregation of duties within the cash receipts/revenue and expenditure functions. The same individual, who reconciles revenue received to the remittance forms, prepares vouchers to request funds, opens the mail, prepares the deposit, records amounts to the general ledger and reconciles the bank statement. The individual also prepares checks, records disbursements to the general ledger and mails checks.
2. Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.
3. Proper controls over financial reporting include the regular reconciliation of accounts and preparation and review of journal entries to the general ledger.

5. South Dakota Housing Development Authority

Report covers: South Dakota Housing Development Authority, a component unit of the State of South Dakota.

IPA: Eide Bailly

Opinion: Unqualified

Written findings: Yes. *See pages 19-21*

1. During the audit, we identified certain material items during our audit procedures that required adjustment to the financial statements. Our procedures also identified that the review of monthly and annual adjusting journal entries is not being performed on a consistent basis.

2. As part of our testing for specific requirements, we selected a sample of 40 tenants receiving Housing Assistance Payments (HAP). Of the 40 selected, various errors in preparation, calculation or interpretation of allowable income or asset bases were found regarding HUD Form 50059 as prepared by the submitting owner/agent. There were 9 errors noted on 9 tenant recertifications. The 9 recertifications originated from 8 management agents.

6. South Dakota Department of Health

Report covers: South Dakota Board of Medical and Osteopathic Examiners, an enterprise fund of the State of South Dakota.

IPA: Eide Bailly

Opinion: Unqualified

Written findings: Yes. See page 22

1. The board does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. We proposed several significant adjustments to the general ledger during the audit. This circumstance is not unusual in a organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

7. South Dakota Department of Labor

Report covers: Unemployment Insurance Fund, an enterprise fund of the State of South Dakota.

IPA: Ketel Thorstenson, LLP

Opinion: Unqualified

Written findings: Yes. See pages 23-25

1. During the course of the engagement, we proposed material audit adjustments that resulted in significant changes in the Fund's financial statements. . . These adjustments would not have been identified as a result of the Fund's existing internal controls, and therefore, could have resulted in a material misstatement of the Fund's financial statements.
2. As in prior years, we were requested to draft audited financial statements and related footnote disclosures as part of our regular audit services. . . .
3. During the course of our audit engagement, we were informed that the Fund's balance sheet was out of balance. . . Accounting staff had posted entries during fiscal year 2008 that resulted in the financial statements being out of balance. These entries were not reviewed by management and the error was not discover and corrected on a timely basis.
4. During the course of our audit engagement, we were informed that the manual trial balance is not tied to the automated trial balance on a regular basis.

8. South Dakota Department of Labor

Report covers: South Dakota Board of Accountancy, an enterprise fund of the State of South Dakota

IPA: East, Vander Woude, Grant & Co., P.C.

Opinion: Unqualified

Written findings: Yes. See page 26

1. Auditor drafting of the financial statements and related footnote disclosures. the

9. South Dakota Retirement System

Report covers: South Dakota Retirement System, a pension fund of the State of South Dakota, South Dakota Retirement System Supplemental Retirement Plan, and, South Dakota Retirement System Special Pay Plan

IPA: KPMG

Opinions: Unqualified

Written findings: None

10. South Dakota Health and Educational Facilities Authority

Report covers: Financial statements of the Health and Educational Facilities Authority

IPA: Eide Bailly

Opinion: Unqualified

Written findings: None

Independent Public Accountants also performed agreed upon procedures audits for the South Dakota Board of Technical Professions and the Electrical Commission. Each entity had findings associated with segregation of duties.

DEPARTMENT OF TOURISM AND STATE DEVELOPMENT

PRIOR AUDIT FINDING

State Audit Finding:

Finding No. 04001200702:

Controls were not adequate to ensure the accuracy of amounts reported in the financial statements including the identification and correction of reporting errors and omissions.

See Current Audit Finding

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

State Audit Finding:

Finding No. 04001200801:

Controls were not adequate to ensure the accuracy of amounts reported in the financial statements including the identification and correction of reporting errors and omissions.

Analysis:

During fiscal year 2008, the Department of Tourism and State Development did not have adequate controls to ensure that the financial statements for the Revolving Economic Development and Initiative Fund were prepared accurately. Adjustments were posted by the auditor to the financial statements correcting the errors and omissions noted during the audit. Our audit identified significant adjustments in the following accounts:

- Cash and Cash Equivalents**
- Short and Long-Term Loans Receivable**
- Investment Income**
- Cash Flows From Investing Activities**

Because the Department did not have adequate controls to ensure the accuracy of amounts reported on the financial statements, there existed an increased exposure to inaccurate financial reporting.

RECOMMENDATION:

- 1. We recommend the Department implement internal control procedures to identify and correct reporting errors and omissions and ensure the accuracy of amounts reported in the financial statements.**

DEPARTMENT OF TOURISM AND STATE DEVELOPMENT
(Continued)

Auditee's Corrective Action Plan:

As a result of the Revolving Economic Development and Initiative Fund (REDI) accounting system crashing in October 2007, the Governor's Office of Economic Development (GOED) then built a new system in coordination with our accounting firm to address some of the control issues. This system is currently in use.

In addition, and more importantly, GOED was able to purchase in April 2008 a new Financial Accounting System Loan Portfolio System (FAS) to address the lack of "checks and balances" with the loan servicing provider. Prior to FY 2009, the only source documents accounting for the loans in the REDI portfolio were provided to GOED and auditor was by the loan servicing provider's loan portfolio system. Currently, GOED is building the FAS loan portfolio system to track this information and provide a "check" to the information provided by the loan servicing provider. The system is being built using information as of July 1, 2008 and is expected to be completed by December 31, 2008.

Finally, the loan service provider has been notified that they will need to provide a year-end amortization schedule breaking out short-term principal receivable versus long-term principal receivable.

Upon completion of the new FAS system and with the additional information provided by the loan servicing provider, adequate controls will be in place to ensure the accuracy of the amounts reported in the financial statements.

ECONOMIC DEVELOPMENT FINANCE AUTHORITY

PRIOR AUDIT FINDING AND RECOMMENDATION

State Audit Finding:

Finding No. 04001200701:

Controls were not adequate to ensure the accuracy of amounts reported in the financial statements including the identification and correction of reporting errors and omissions.

Auditee's Corrective Action Plan:

See Current Audit Finding No. 04001200802

CURRENT AUDIT FINDING AND RECOMMENDATIONS

State Audit Finding:

Finding No. 04001200802:

Controls were not adequate to ensure the accuracy of amounts reported in the financial statements including the identification and correction of reporting errors and omissions.

Analysis:

During fiscal year 2008, the Economic Development Finance Authority (Authority) did not have adequate controls to ensure that the financial statements for the Authority were prepared accurately. Adjustments were posted by the auditor to the financial statements correcting the errors and omissions noted during the audit. Our audit identified significant adjustments in the following accounts:

- Cash and Cash Equivalents
- Loans Receivable
- Due to Other Governments
- Interest Income on Loans
- Investment Income
- Bond Proceeds
- Interest Expense
- Contractual Services

Although adjustments were posted to the financial statements correcting the errors and omissions noted during the audit, auditor involvement was required to determine the adjustments necessary to properly report the financial statements of the Authority. As a result of the Authority not having adequate controls to ensure the accuracy of amounts reported on the financial statements, there existed an increased exposure to inaccurate financial reporting.

**ECONOMIC DEVELOPMENT FINANCE AUTHORITY
(Continued)**

RECOMMENDATION:

1. We recommend the Authority implement internal control procedures to identify and correct reporting errors and omissions and ensure the accuracy of amounts reported in the financial statements.

Auditee's Corrective Action Plan:

GOED has contracted a CPA firm to provide accounting services. The accountant and GOED are also developing a monthly process to verify accuracy of financial statements. This should lead to a more reliable, accurate and timely process for year-end accounting.

Federal Compliance Audit Finding:

Finding No. 04001200803:

Controls in place were not adequate to ensure that the information contained in Federal reports was accurate.

CFDA Title: Intermediary Relending Program

CFDA Number: 10.767

Federal Award Number: 47-033-0521498816

Federal Award Year: 2007-2008

Federal Agency: Rural Business & Cooperative Development Service

Type of Finding: Significant Deficiency

Category of Finding: Reporting

Analysis:

During fiscal year 2008, the Economic Development Finance Authority (Authority) did not have adequate controls to ensure that the Schedule of Expenditures of Federal Awards (SEFA) was accurately prepared. Multiple errors were noted by the auditor. The amount of Loans Payable was incorrectly calculated, which is used to calculate Loan Loss Reserve, therefore causing both accounts to be inaccurate. Also the Loans portion of the SEFA was incorrectly calculated and not updated properly. The SEFA was adjusted for the correct amounts.

RECOMMENDATION:

2. We recommend the Authority implement internal control procedures to ensure the accuracy of amounts reported in the Federal reports.

Auditee's Corrective Action Plan:

GOED was able to purchase in April 2008 a new Financial Accounting Loan Portfolio System (FAS) to address the accuracy of accounting for Loan Receivables as well as Loans Payable. Prior to FY2009, the only source documents accounting for the loans in the APEX portfolio were provided to GOED and the auditor was by the loan servicing

ECONOMIC DEVELOPMENT FINANCE AUTHORITY
(Continued)

provider's system. Currently, GOED is building the FAS loan portfolio system to track this information and provide a "check" to the information provided by the loan servicing provider. The system is being built using information as of July 1, 2008 and is expected to be completed by December 31, 2008.

In addition, GOED has contracted a CPA firm to provide accounting services. The accountant and GOED are also developing a monthly process to verify accuracy of financial statements. This should lead to a more reliable, accurate and timely process for year-end accounting.

DEPARTMENT OF HUMAN SERVICES

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Finding:

Finding No. 19000200801:

Periodic certifications for employees working on a single federal program were not obtained in accordance with federal regulations.

CFDA Title: Rehabilitation Services-Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Number: Various

Federal Award Year: Various

Federal Agency: Department of Education

Type of Finding: Material Weakness

Category of Finding: Allowable Costs/Cost Principles

Analysis:

OMB Circular A-87 – Cost Principles for State and Local Governments (A-87), Attachment B, Number 8, section h states:

...

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.”

...

Of the 183 employees tested, payroll costs for 115 employees were allocated solely to one federal program and required a certification. One of the 115 employees did not submit a periodic certification stating they worked solely on a federal program. The other 114 employees had certifications completed in April and May of 2008 that covered the eighteen month time period of January 1, 2007 through June 30, 2008. These certifications should have been prepared at least semi-annually. As a result, the department did not comply with OMB Circular A-87 and there existed an increased exposure for ineligible costs to be incurred on federal programs.

RECOMMENDATION:

1. We recommend that periodic certifications for employees working on a single federal program be obtained in accordance with OMB Circular A-87.

DEPARTMENT OF HUMAN SERVICES
(Continued)

Auditee's Corrective Action Plan:

The DHS has always had procedures in place to ensure compliance with periodic certifications for employees working on a single federal program and historically have not encountered any issues with this requirement. The completion of this task occurred later than we would have preferred.

In response to the finding regarding the Vocational Rehabilitation Services Grant, DHS disagrees that this finding presents a 'material weakness'. During the course of the audit engagement, communication with the auditor identified why we disagree with the 'materiality' of this finding. The employees working under this grant provide only vocational rehabilitation services and have absolutely no other program to work on or code time to. The payroll distribution rules for these employees are established by DHS Budget and Finance Office. Therefore, all payroll expenses are accurately accounted for and reported on the federal financial status reports and are not affected by signed time certifications.

Although we would agree this is a non-compliance issue, we disagree with your finding of material weakness as the signed certification would not have a material impact or reflection on costs or expenditures reported to this federal award. Our corrective action plan will assure through adherence to established procedures that compliance will be obtained and maintained with the requirement of periodic certifications for employees working on a single federal program.

Finding No. 19000200802:

The Vocational Rehabilitation Program Cost Report (Form RSA-2) contained inaccurate information.

CFDA Title: Rehabilitation Services-Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Number: H126A070062D and H126A070084D

Federal Award Year: 2006 and 2007

Federal Agency: Department of Education

Type of Finding: Noncompliance

Category of Finding: Reporting

Analysis:

An annual Vocational Rehabilitation Program Cost Report (Form RSA-2) is required for the Vocational Rehabilitation grant for both the Division of Rehabilitation Services (DRS) and the Division of Service to the Blind and Visually Impaired (SBVI). The report contains statistical and financial data for the federal fiscal year (FFY). Examination of the DRS and SBVI FFY2007 RSA-2 reports identified the following:

- 1) Schedule 2, Line 1, DRS and SBVI reported an erroneous number of individuals that did not receive any purchased services and who also did not receive any of the other services provided directly by the state. This line would include those individuals receiving assessment, counseling, guidance or placement services provided through use of comparable benefits, at no cost to the state. The DRS and SBVI schedules reported 1,689 and 158 and should have reported 2,354 and 140, respectively.

DEPARTMENT OF HUMAN SERVICES
(Continued)

- 2) Schedule 2, Line 10, DRS and SBVI reported an incorrect number of individuals for an unduplicated count of individuals receiving any Vocational Rehabilitation services. The DRS and SBVI schedules reported 5,409 and 505 and should have reported 5,388 and 504, respectively.
- 3) Schedule 2, Line 12, DRS reported an erroneous amount of Vocational Rehabilitation funds expended for rehabilitation technology services. The schedule reported \$302,982 and should have reported \$52,887.
- 4) Schedule 5, Line 1, DRS and SBVI reported the wrong amount of Section 110 Federal funds allotted for FFY07 to be carried over to the following fiscal year. The DRS and SBVI schedules reported \$0 and should have reported \$37,176 and \$178,306, respectively.
- 5) Schedule 5, Line 3, DRS reported the wrong amount of Title VI-B Federal funds allotted for FFY07 to be carried over to the following fiscal year. The schedule reported \$0 and should have reported \$10,597.
- 6) Schedule 5, Line 5, DRS and SBVI reported the wrong amount of Program Income funds received during FFY07 to be carried over to the following fiscal year. The DRS and SBVI schedules reported \$0 and should have reported \$219,657 and \$101,702, respectively.

As a result, inaccurate statistical and financial information was reported on the FFY07 Rehabilitation Program/Cost Report (Form RSA-2).

RECOMMENDATIONS:

2. We recommend statistical and financial information be properly reported on the Rehabilitation Program Cost Report (Form RSA-2).
3. We recommend the DRS and SBVI correct the FFY07 Rehabilitation Program Cost Report (Form RSA-2) and resubmit the report to the U.S. Department of Education.

Auditee's Corrective Action Plan:

The DHS agrees with this audit finding and recommendations made by the Department of Legislative Audit. The DHS has processes and procedures in place to assure the accurate preparation of these reports. However, due to staff turnover and vacancies, the preparation of this particular report did not follow the DHS established procedures. The DHS will assure that all subsequent future reports are prepared and submitted accurately. The FFY2007 Annual Vocational Rehabilitation Program/Cost Reports have been corrected and will be resubmitted to the U.S. Department of Education.

DEPARTMENT OF REVENUE AND REGULATION
CURRENT AUDIT FINDING AND RECOMMENDATION

State Audit Finding:

Finding No. 02000200801:

Access rights to Department computer systems were not removed on a timely basis for terminated employees and a former contractor.

Analysis:

Inappropriate users were authorized access to the Department of Revenue and Regulation Business Tax, Motor Vehicles Fees, Motor Fuel Refunds, and Prorate systems. Twenty-eight inappropriate users were noted.

As a result, the Department experienced a greater risk of loss or theft of data, disclosure of confidential data, and loss of assets.

RECOMMENDATIONS:

1. We recommend the Department periodically request their user listings from the Bureau of Information and Telecommunications, review them for inappropriate users, and deactivate users that are no longer appropriate.
2. We recommend the Department periodically send user lists to agencies with access to the Department's systems. The agencies should review their users and report back to the Department whether the users should be deactivated or provide justification of why they are still appropriate.

Auditee's Corrective Action Plan:

The Department of Revenue and Regulation concurs with the audit finding and has implemented additional safeguards to ensure on-going review of user listings from the Bureau of Telecommunications. These lists will be reviewed on a quarterly basis to identify any inappropriate users. The Department will notify the Bureau of Information and Telecommunications of users to be deleted. The Department has also implemented a practice that will have all Department New Employee and Employee Exit form information shared with a central location to provide a check point for computer permissions and timely deactivations of these permissions.

**STATE OF SOUTH DAKOTA DEPARTMENT OF REVENUE AND REGULATION
SOUTH DAKOTA REAL ESTATE COMMISSION
SCHEDULE OF CURRENT AUDIT FINDING AND RESPONSE**

INTERNAL CONTROL SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS

Finding No. 2008-01:

Auditor drafting of the financial statements and related footnote disclosures.

Analysis:

We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. During 2006, a new auditing standard from the American Institute of Certified Public Accountants, SAS 112, became effective. This statement requires auditors to communicate this situation to the state as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the Commission's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both at the same time in connection with our audit. This is not unusual for us to do this with an organization of your size. However, based on this new auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the Commission's management. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Auditee's Corrective Action Plan:

We are aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk.

**DEPARTMENT OF AGRICULTURE
CORN CHECK OFF FUND OF THE SOUTH DAKOTA
CORN UTILIZATION COUNCIL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008**

Finding Number 2008-1 – Lack of Proper Segregation of Duties for the Revenue and Expenditure Functions

Condition: There is a lack of segregation of duties within the cash receipts/revenue and expenditure functions. The same individual, who reconciles revenue received to the remittance forms, prepares vouchers to request funds, opens the mail, prepares the deposit, records amounts to the general ledger and reconciles the bank statement. The individual also prepares checks, records disbursements to the general ledger and mails checks.

Criteria: In order to achieve a high level of internal control, the functions of executing transactions, recording transactions and maintaining accountability for assets should be performed by different employees or be maintained under dual control.

Effect: Proper segregation of duties helps to minimize the chance of undetected errors or defalcations, since the work of one person serves as a "check" on the work of another.

Recommendation: Due to the small size of the office, the Council is limited in the options available to them. Under this situation, the most effective control is management and the board's oversight and knowledge of matters relating to the operations of the Council.

Management's Response: We have evaluated the segregation of duties over the revenue function and over the expenditure function. We believe that the risk related to the lack of segregation of duties is mitigated to a low level by the oversight of our board of directors.

Finding Number 2008-2 – Preparation of Financial Statements

Condition: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Criteria: The Council does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Effect: Inadequate controls over financial reporting of the Council could result in the likelihood that the Council would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the Council and changes in reporting requirements.

Management's Response: Management and the board of directors will review for propriety the draft financial statements and footnotes prepared by the auditor. Due to the Council's size, we will accept the risk associated with this condition based on cost and other considerations. The cost of any further controls would outweigh the related benefits.

Finding Number 2008-3 – Adjusting Journal Entries

Condition: During the course of our engagement, we identified two significant audit adjustments. The first adjustment was made to accurately reflect accounts payable, which was understated by \$69,000. The second significant audit adjustment was to adjust cash by \$984,300 for two checks. The first check for \$484,300 was voided under board direction. The second check, also under board direction, for \$500,000 was held at year end due to the Council waiting for the recipient to fulfill their obligations. Both checks were included on the cash reconciliation as outstanding checks at year end.

Criteria: Proper controls over financial reporting include the regular reconciliation of accounts and preparation and review of journal entries to the general ledger.

Effect: Inadequate controls over financial reporting of the organization could result in the likelihood that the organization would not be able to identify necessary journal entries and post them to the general ledger in a timely fashion.

Recommendation: While we recognize that the above journal entries appear to be an isolated incident, it is important that you be aware of these adjustments, and we suggest for management to continually be aware of the financial reporting of the Council and the internal controls that impact financial reporting. We also recommend that part of the review procedures by management includes the initials of the reviewer on the reconciliation.

Management's Response: Management understands the importance of regular reconciliation of general ledger accounts and of the review of these reconciliations to ensure accuracy and completeness. Management will take the necessary steps to modify procedures to include the formal signoff at the review stage of the process.

Housing Authority

Part II - Findings Relating to the Financial Statements

Material Weakness

Finding 2008-1 Financial Statement Adjustments

Condition: During the audit, we identified certain material items during our audit procedures that required adjustment to the financial statements. Our procedures also identified that the review of monthly and annual adjusting journal entries is not being performed on a consistent basis.

Criteria: A system of internal accounting control contemplates accurate recording and presentation of amounts and disclosures in the financial statements. To ensure accurate recording, a system of internal control should include a review of all adjusting journal entries recorded into the system.

Cause: Audit adjustments were identified due to adjusting journal entries and their financial statement effect not being reviewed prior to preparation of the financial statements.

Effect: The control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: We recommend that management develop and implement a procedure to document the review of adjusting journal entries posted by all staff accountants. This review process should entail review of journal entries and related support to ensure propriety of the entry. This process should also include notation that the procedure was performed by having the reviewer signoff on the documentation.

Management response: The Authority makes every attempt to include all material amounts and disclosures in its financial statements and related notes. However, with the volume of transactions completed every year, the need to implement additional procedures to ensure accurate recording and presentation is necessary. We will review our current procedures and implement additional procedures as necessary.

Part III - Findings and Questioned Costs for Federal Award Programs

None

**SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008**

Finding III-2007-1 - Housing Assistance Payments

CFDA Title: Section 8 Cluster
CFDA Number: 14.182
Type of Finding: Noncompliance
Category of Finding: Reporting

Condition: As part of our testing for specific requirements, we selected a sample of 40 tenants receiving Housing Assistance Payments (HAP). Of the 40 selected, various errors in preparation, calculation or interpretation of allowable income or asset bases were found regarding HUD Form 50059 as prepared by the submitting owner/agent. There were 9 errors noted on 9 tenant recertifications. The 9 recertifications originated from 8 management agents.

Recommendation: It was recommended that the Authority provide additional training for owner/agents preparing Form 50059. In addition, the Authority should have extended its tests of Form 50059 in an effort to identify which owner/agents need additional training or information regarding Form 50059 reporting.

Status: As of June 30, 2008 this finding has been resolved.

**SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2008**

Cognizant or Oversight Agency: U.S. Department of Housing and Urban Development

The South Dakota Housing Development Authority respectfully submits the following corrective action plan for audit findings for the year ended June 30, 2008.

Independent Public Accounting Firm: Eide Bailly LLP
P.O. Box 430
Aberdeen, SD 57402-0430

Audit Period: July 1, 2007 – June 30, 2008

These findings from the June 30, 2008 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section I of the schedule, Summary of Auditor's Results, does not include findings and is not addressed.

Part II - Findings Relating to the Financial Statements

Material Weakness

Finding 2008-1 Financial Statement Adjustments

Condition: During the audit, we identified certain material items during our audit procedures that required adjustment to the financial statements. Our procedures also identified that the review of monthly and annual adjusting journal entries is not being performed on a consistent basis.

Criteria: A system of internal accounting control contemplates accurate recording and presentation of amounts and disclosures in the financial statements. To ensure accurate recording a system of internal control should include a review of all adjusting journal entries recorded into the system.

Cause: Audit adjustments were identified due to adjusting journal entries and their financial statement effect not being reviewed prior to preparation of the financial statements.

Effect: The control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: We recommend that management develop and implement a procedure to document the review of adjusting journal entries posted by all staff accountants. This review process should entail review of journal entries and related support to ensure propriety of the entry. This process should also include notation that the procedure was performed by having the reviewer signoff on the documentation.

Management response: The Authority makes every attempt to include all material amounts and disclosures in its financial statements and related notes. However, with the volume of transactions completed every year, the need to implement additional procedures to ensure accurate recording and presentation is necessary. We will review our current procedures and implement additional procedures as necessary.

If the U.S. Department of Housing and Urban Development has questions regarding this schedule, please contact Mark Lauseng at 605-773-3181.

SOUTH DAKOTA BOARD OF MEDICAL AND OSTEOPATHIC EXAMINERS
SUMMARY OF AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

08-01 Preparation of Financial Statements

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition: The Board does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. We proposed several significant adjustments to the general ledger during the audit. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause: The control deficiency could result in a misstatement to the presentation of the financial statements.

Effect: Inadequate controls over financial reporting of the Board result in the more than remote likelihood that the Board would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendations: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the Board and changes in reporting requirements.

Response: Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare the audit financial statements as part of their annual audit of South Dakota Board of Medical and Osteopathic Examiners.

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2008**

A. Summary of Audit Results

1. The independent auditor's report expresses an unqualified opinion on the financial statements of the Unemployment Insurance Fund (the Fund).
2. Four significant deficiencies relating to the audit of the financial statements 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. These were not considered to be material weaknesses.
3. No instances of noncompliance material to the financial statements of the Fund were disclosed during the audit.
4. No deficiencies relating to the audit of the major federal award programs are 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.
5. The independent auditor's report on compliance for the major federal award programs for the Fund expresses an unqualified opinion.
6. No findings relative to the major federal award program for the Fund reported in this schedule.
7. The programs tested as major programs include: State and Federal Unemployment Insurance CFDA# 17.225.
8. The threshold used for distinguishing between Type A and B programs was \$3,750,000.
9. The Department was not considered a low risk auditee under the criteria established in OMB Circular A-133.

B. Findings -- Financial Statement Audit

Significant Deficiency -- Not Considered a Material Weakness

2008-1: Audit Adjustments

Finding and Analysis: During the course of our audit engagement, we proposed material audit adjustments that resulted in significant changes in the Fund's financial statements. Adjustments included recording an adjustment to the cash balance, recording additional accounts receivable, federal benefit payments, the amount due to be transferred to investment fee fund, and liability for interest and penalties from June owed to the Contingency Fund. These adjustments would not have been identified as a result of the Fund's existing internal controls, and therefore, could have resulted in a material misstatement of the Fund's financial statements. Under the Statement of Auditing Standards (SAS) 112, *Communicating Internal Control Related Matters Identified in an Audit*, this is a significant deficiency that is required to be reported.

Recommendations: Accounting staff should ensure that year-end balance sheet accounts are reconciled and recorded properly. Normal year-end adjustments should be made by accounting staff. In addition, we recommend changes in operations be continually reviewed for potential changes in accounting so that the appropriate entries can be made throughout the year.

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2008**

B. Findings -- Financial Statement Audit (Continued)

Significant Deficiency -- Not Considered a Material Weakness (Continued)

2008-1: Audit Adjustments (continued)

Corrective Action Plan: During our next fiscal year, we intend to utilize the staff accountant from the Department of Labor to review our financial statements on a quarterly basis. Don Kattke will be in charge of implementation and review of the corrective action plan.

2008-2: Preparation of the Financial Statements

Finding and Analysis: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. During 2006, a new auditing standard from the American Institute of Certified Public Accountants, SAS 112, became effective. This statement requires auditors to communicate this situation to the State as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the Fund's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this new auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the Fund's management. As in prior years, we have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan: We are aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk. Dan Nikolas will be in charge of implementation and review of the corrective action plan.

2008-3: Review of Journal Entry Posting

Finding and Analysis: During the course of our audit engagement, we were informed that the Fund's balance sheet was out of balance. Accounting staff had posted entries during fiscal year 2008 that resulted in the financial statements being out of balance. These entries were not reviewed by management, and the error was not discovered and corrected timely.

Recommendation: Management should ensure that journal entry postings are accurate, and adjusting entries should be reviewed by someone independent of the person initiating the entry on a regular basis.

Corrective Action Plan: During our next fiscal year, we intend to utilize the staff accountant from the Department of Labor to review our financial statements on a quarterly basis. Don Kattke will be in charge of implementation and review of the corrective action plan.

SOUTH DAKOTA DEPARTMENT OF LABOR

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2008**

B. Findings -- Financial Statement Audit (Concluded)

2008-4: Tying of the Manual Trial Balance to the Automated Trial Balance

Finding and Analysis: During the course of our audit engagement, we were informed that the manual trial balance is not tied to the automated trial balance on a regular basis.

Recommendation: It is the responsibility of management to review the automated trial balance for error by tying the balances to those of the manual system.

Corrective Action Plan: During our next fiscal year, we intend to utilize the staff accountant from the Department of Labor to review our financial statements on a quarterly basis. Don Kattke will be in charge of implementation and review of the corrective action plan.

C. Findings and Questioned Costs -- Major Federal Award Programs Audit

None.

Status of Prior Audit Findings

Audit findings 2007-1, 2007-2, 2007-3 and 2007-4 for the year ending June 30, 2007 are repeated as findings 2008-1, 2008-2, 2008-3 and 2008-4 for the year ending June 30, 2008.

STATE OF SOUTH DAKOTA
DEPARTMENT OF LABOR
SOUTH DAKOTA BOARD OF ACCOUNTANCY
BASIC FINANCIAL STATEMENTS
FOR THE TWO YEARS ENDED JUNE 30, 2008

CURRENT AUDIT FINDING AND RECOMMENDATION

Finding No. 2008-1:

Auditor drafting of the financial statements and related footnote disclosures.

Analysis:

We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. During 2006, a new auditing standard from the American Institute of Certified Public Accountants, SAS 112, became effective. This statement requires auditors to communicate this situation to the state as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the Board's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both at the same time in connection with our audit. This is not unusual for us to do this with an organization of your size. However, based on this new auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the Board's management. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any classification and disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Auditee's Corrective Action Plan:

We are aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk.

**SOUTH DAKOTA HIGH SCHOOL ACTIVITIES ASSOCIATION
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS**

PRIOR AUDIT FINDING

Finding No. 2007-01:

The South Dakota High School Activities Association failed to remit to the State of South Dakota – State Treasurer unclaimed property, in the form of outstanding checks in the amount of \$2,598.36, in violation of the South Dakota Codified Laws (SDCL) Chapter 43-41B. Prior to the remittance date, the Association failed to take the necessary steps to prevent abandonment from being presumed by not exercising due diligence to ascertain the whereabouts of the owners, also a violation of the South Dakota Codified Laws (SDCL) Chapter 43-41B.

This comment has not been corrected and is restated under current audit finding as No. 2008-01.

CURRENT AUDIT FINDING

Other Audit Findings:

Finding No. 2008-01:

Unclaimed Property

The South Dakota High School Activities Association failed to remit to the State of South Dakota – State Treasurer unclaimed property, in the form of outstanding checks in the amount of \$3,739.51, in violation of the South Dakota Codified Laws (SDCL) Chapter 43-41B. Prior to the remittance date, the Association failed to take the necessary steps to prevent abandonment from being presumed by not exercising due diligence to ascertain the whereabouts of the owners, also a violation of the South Dakota Codified Laws (SDCL) Chapter 43-41B. This is the third consecutive audit report to contain this finding.

Analysis:

SDCL § 43-41B-2 states:

43-41B-2. Property presumed abandoned--General rule

(a) Except as otherwise provided by this chapter, all intangible property, including any income or increment derived there from, less any lawful charges, that is held, issued, or owing in the ordinary course of a holder's business and has remained unclaimed by the owner for more than five years after it became payable or distributable is presumed abandoned.

(b) Property is payable or distributable for the purpose of this chapter notwithstanding the owner's failure to make demand or to present any instrument or document required to receive payment.

SDCL § 43-41B-18 states:

- (a) A person holding property tangible or intangible, presumed abandoned and subject to custody as unclaimed property under this chapter shall report to the administrator concerning the property as provided in this section...

The holder of unclaimed property shall, before filing the annual report required by this section, communicate with the owner and take necessary steps to prevent abandonment from being presumed by exercising due diligence to ascertain the whereabouts of the owner. This shall include, but is not limited to, the mailing of notice to each person having an address if said person is entitled to property of the value of fifty dollars or more presumed abandoned under this chapter...

- (b) The report must be verified and must include:

(1) ... The name, if known, and last known address, if any, of each person appearing from the records of the holder to be the owner of property of the value of fifty dollars or more presumed abandoned under this chapter;....

(4) The nature and identifying number, if any, or description of the property and the amount appearing from the records to be due, but items of value under fifty dollars each may be reported in the aggregate;....

- (d) The report must be filed before November first of each year as of June thirtieth, next preceding...

SDCL § 43-41B-20 states:

- (a) ... a person who is required to file a report under this chapter shall, at the same time as the final date for filing the report as required, pay or deliver to the administrator all abandoned property required to be reported...

The Association has outstanding checks dating back to October 6, 1998. The Association failed to exercise due diligence by not contacting the owners of the outstanding checks. SDCL 43-41B-18 states that the holder of unclaimed property shall, before filing the annual report, communicate with the owner and take the necessary steps to prevent abandonment from being presumed by exercising due diligence to ascertain the owner's whereabouts.

Based on SDCL 43-41B-2 & 18, abandoned property required to be remitted must be unclaimed for more than five years as of the measurement date of June 30, 2008. The Association had \$3,739.51 of outstanding checks, considered to be abandoned property as of June 30, 2008. The Association failed to report the abandoned property by November 1, 2008, and they did not pay or deliver the abandoned property to the State Treasurer, as required by SDCL 43-41B-20.

Recommendation:

We recommend the Association exercise due diligence to ascertain the whereabouts of the owners of the outstanding checks, then if necessary report and deliver the unclaimed property to the State Treasurer in a timely manner, in accordance with SDCL Chapter 43-41B.

Management's Response:

Clay Cudmore from the firm of Ronald G. Tedrow, CPA will be contacted for a review of the procedure to be followed. Every effort will be made to contact the payees to determine the status of the outstanding check. Depending on the outcome, the necessary reports will be filed with the State Treasurer's Office. In the future, a procedure will be implemented to contact those parties that have not cashed/deposited a SDHSAA check within sixty (60) calendar days following the issuance of a check.