



April 17, 2009

Representative Deb Peters, Chair
Government Operations and Audit Committee
500 East Capitol Avenue
Pierre, South Dakota 57501

RE: 2008 Audit of the South Dakota Corn Utilization Council

Dear Representative Peters:

Our Board is in receipt of an email from your office dated April 7, 2009, transmitting a letter to you from Representative Deb Peters (of the same date) in her capacity as Chair of the Government Operations and Audit Committee of the South Dakota Legislature (GOAC).

The South Dakota Corn Utilization Council (SDCUC) Board is providing you with the information set forth herein to assist the Department of Agriculture (the Department), as the April 7, 2009 letter from Representative Peters makes a request of the Department as follows:

The Committee would also like a written response to the FY08 audit report for the Corn Utilization Council regarding internal control findings over financial reporting and the lack of segregation of duties. Please forward the written responses to Tim Flannery, Department of Legislative Audit, 427 S. Chapelle, Pierre, SD 57501.

Initially, the SDCUC Board would like to note that the 2008 Audit of the SDCUC is an unqualified opinion by our auditors. The unqualified opinion is set forth on the first page of the 2008 Audit, and states as follows:

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Agriculture Corn Check-Off Fund of the South Dakota Corn Utilization Council as of June 30, 2008, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We acknowledge that the 2008 Audit contains "Findings" by our auditors for which GOAC has requested additional information. The SDCUC Board requests that you consider the "Management's Response" set forth in each Finding as you prepare the response to GOAC. In addition, the SDCUC Board has carefully considered and reviewed the 2008 Audit (as it does with every audit), and the SDCUC has been in contact with our auditors for recommendations relative to each Finding.

Based on these follow-up inquiries with our auditors, and in the exercise of our fiduciary duties as directors, we would like to make the Department aware of the additional steps the SDCUC Board has taken, and will be taking, as set forth on the following pages.

A G R O W I N G I N V E S T M E N T

Finding Number 2008-1:

Deposits.

1. The SDCUC has *very few* cash deposits during the year, as over 99% of the deposits into the SDCUC account are received directly from the State of South Dakota (see SDCL § 38-32-12).
2. However, each of the following duties will be performed by a separate individual:
 - a. Open the mail and prepare a list of cash/checks and deposit slip;
 - b. The physical delivery of the deposit to the bank; and
 - c. Recording the deposit on the general ledger.

Reconciliation.

3. The task of reconciling the bank statement will be performed by an individual who does not have access to the general ledger.
4. The bank reconciliation and bank statement will be reviewed by, and signed off by, either the: Executive Director or the Director of Industry Affairs.

Checks.

5. The individual preparing the checks and recording the disbursements to the general ledger is not mailing the checks.
6. All checks are, and will be, approved for payment by either the: Executive Director or Director of Industry Affairs.

Additional Controls.

7. In addition to the above items, there is oversight by another individual in the office and/or the SDCUC Board at almost each stage of the process.
8. The SDCUC Board believes that due to the small size of the office, the risk related to the lack of segregation of duties is diminished to a low level by the multiple and various levels of oversight.

Finding Number 2008-2:

The SDCUC Board has been advised by our auditors that finding reported as 2008-2 "is a result of a requirement under Statement on Auditing Standards 112 (SAS 112) '*Communicating Internal Control Matters Identified in an Audit.*'" This

auditing standard became effective for periods ending after December 31, 2006, and our auditors have interpreted SAS 112 to require the SDCUC Board to have the ability to draft "accompany notes".

It is important to note that Finding 2008-2 does not mean that a misstatement actually occurred. However, we understand that SAS 112 has lowered the bar so that findings that may not have been previously reportable may now be considered reportable simply because there is the potential for misstatement.

Accordingly, the SDCUC Board has been advised by our auditors that:

1. The finding identified as 2008-2 is reported in organizations of our size "in almost all cases".
2. Corrective action is not required. However, the finding is required to be reported every year.

Conclusion.

Although the Findings by our auditors are of a technical nature, we have made all necessary follow-up inquiries, and continue to closely monitor the receipt and disbursement of funds.

We trust the information provided above will assist you in providing additional information to GOAC, and ask that you contact us if you need additional assistance or information. The SDCUC Board is proud of the unqualified opinion of the auditors in the 2008 Audit, and we will make ourselves available to the Department for any further inquiry.

The South Dakota Corn Utilization Council Board of Directors

A handwritten signature in black ink, appearing to read "David Fremark". The signature is written in a cursive, flowing style.

by David Fremark, President