

August 17, 2017

Department of Legislative Audit
Attn: Tim Flannery
427 South Chapelle
Pierre, SD 57501

Members of the GOAC Committee, thank you for the invitation to speak to your committee. We are quite flattered you feel our background as auditors could be of assistance in addressing audit matters and helping improve government accountability. As many of you know, Schoenfish & Co., Inc. audits roughly 80 schools, cities, coops, and other governmental entities around the state (many on an annual basis and some as needed); we are pleased that the board members of even more governmental entities chose to hire the firm for 2017. The accounting firm has diligently served our clients and taxpayers for decades. Our firm employs 9 to 10 people, depending on the time of year, with each person working a varying amount with our many audit clients and other services that we provide.

We have received the list of questions and answered them below. We will answer these questions as a firm and not as individuals. We hope this is helpful. We will respectfully decline this invitation to speak before the committee as this relates to professional work done by our personnel as a team and we feel our written response should be sufficient. Thank you for your service on the committee and to South Dakota.

1. Was there an engagement letter signed for each of the annual audits you conducted of Mid Central Educational Cooperative?

Yes.

2. Was a signed management representation letter from Mid Central Educational Cooperative provided to Schoenfish & Co., Inc. for each of the annual audits you conducted?

Yes.

3. How many employees did Schoenfish & Co., Inc. have over the course of the years the firm conducted the annual audit of Mid Central Educational Cooperative?

Approximately four to eight. Our firm has audited the Coop for many years. The number of employees has grown on a consistent basis. The requirements and time needed to audit an individual audit client has also grown immensely over time.

4. How many different employees worked on the audit over the course of years the firm conducted the annual audit of Mid Central Educational Cooperative?

Approximately eight different people have worked on the audit through the years.

5. Provide a breakdown of the hours spent on each of the annual audits of Mid Central Educational Cooperative.

We have audited this Coop for approximately 20 years. We are only required to keep information on prior audits for five years. We have provided the hours below.

FY2010 - 145

FY2011 - 149

FY2012 - 152

FY2013 - 147

FY2014 - 172

6. In the audits that you carried out, how was the information assessed that you used to base your findings on?

As with any audit, it is obtained from management and the business office personnel.

This included but was not limited to: Financial reports (computerized and manual), bank statements, bank confirmations, bank reconciliations, schedules prepared by employees, depreciation schedules, state remittance vouchers for income, grant reimbursements approved by the SD Department of Education, receipt books, vouchers, invoices, budgets, minute books, external reports required by certain agencies, and inquiry of management, financial personnel and other personnel.

7. What conversations did you have with the South Dakota Department of Education regarding the audit findings for the fiscal years your firm audited Mid Central Educational Cooperative?

At the conclusion of the audit, the audit report is sent to the Auditor General for a desk review, and upon approval, the audit is distributed by the Department of Legislative Audit in accordance with guidance of the Auditor General to several departments including The Department of Education and is open for public review.

The Department of Education had only one brief conversation with one member of our firm. As we recall, they only asked a couple of simple questions. They never expressed any concerns to us during the many years we performed the audits.

8. Was the manner in which the findings of the Mid Central Educational Cooperative audits reported to their authority similar to presentations to other agencies you have completed audits for?

Yes, the same procedure is used for virtually all audits of governmental entities.

9. Were there any times when you requested information from Mid Central Educational Cooperative for your audit that Mid Central Educational Cooperative could not produce the information your firm requested?

We would refer you to the audit findings and recommendations of the audits.

10. Who were your contacts for the information needed in the audit from Mid Central Educational Cooperative?

Management and the business office personnel present during the audit. This included but was not necessarily limited to the Business Manager, Assistant Business Managers, Director and office employees.

11. Were there any differences in process or access to information among the audits you completed for Mid Central Educational Cooperative?

All governmental audits are done in a similar fashion using an audit guide approach to determine information needed. Some employees changed duties though the years.

12. Were there Board representatives present when you presented your audit findings to Mid Central Educational Cooperative?

For the years we still have audit copies, the people present at the closing conferences were as follows:

2014 – Board President, Director, Business Manager, Assistant Business Manager

2013 – Board President, Director, Business Manager, Assistant Business Manager

2012 – Board President, Director, Business Manager, Assistant Business Manager

2011 – Board President, Director, Business Manager, Assistant Business Manager

2010 – Board President, Director, Business Manager, Assistant Business Manager

13. If they were present did they ask any questions about the findings?

They were always given the opportunity to ask questions. They did ask some questions. They expressed concerns over our adverse opinions regarding what could be done about correcting them.

14. Who provided the responses to the recommendations from the audits? Was it only in writing or were there verbal responses?

The responses were a combination of Board Member, Director, and Business Manager responses, either in writing, oral or both. As part of Federal Single Audit requirements, management is required to provide a written corrective action plan in addition to any verbal responses. We would refer you to the Current Audit Findings and Questioned Costs for each audit for management's response.

15. Were the responses to the audit findings typical for agency responses?

Yes.

16. Were you invited to attend the Mid Central Educational Cooperative board meetings to present your audit report? In the last 5 years, how many times were you invited? If you did attend, did any board members express an interest in any particular part of the audit report?

We were never invited to attend a board meeting to present our audit. We only had closing conferences (See No. 12.). At that time, the personnel present were provided a draft audit and the management letter. After approval and the signing of the letter of representation, management received final audit copies to be distributed to each board member to keep.

17. Was the gym constructed at Mr. Westerhuis' home ever a topic of conversation at Mid Central Educational Cooperative? Was it acknowledged as an asset of the GEAR-UP program by board members? By Management? By any other employees?

Based on management's representations at the time of the audit, no board members, members of management, or other employees ever acknowledged it as an asset of the GEAR-UP program.

Yes, it was discussed. It was never acknowledged to be a GEAR UP asset by anyone we spoke to.

18. How long has Schoenfish and Company conducted audits of Mid Central Educational Cooperative?

Approximately 20 years.

19. How many years were you Kyle Schoenfish personal involved with doing the audits and what years were they?

The audit was performed by Schoenfish & Co., Inc., CPA's.

We use a team approach, with approximately 8 auditors. Professional standards require all auditors under the firm to be competent and unbiased; therefore, an auditor's individual involvement is immaterial to the scope of an audit as a whole. It is very rare that any one auditor in our firm would do more than twenty five percent of any audit.

20. What was your response Kyle as an auditor to the discrepancies in the monthly balances shown in Mid Central's financial reports from June 2011 through March 2014.

The audit was performed by Schoenfish & Co., Inc., CPA's.

In response to the question, we issued an adverse opinion in several audits, and more than just cash was reported as a concern. Again, we would refer you to the Current Audit Findings and Questioned Costs section of the audit report.

21. What other irregularities did your audit find in Mid Central's finances that might be related to the improper use of funds that has led to criminal charges for Mid Central personnel?

As the last audit that we were involved in was FY2014, we would refer you to the FY2015 audit and findings performed by the Department of Legislative Audit as well as the special report performed by the Department of Legislative Audit along with the Internal Control Review performed by Eide Bailly, LLP.

Any questions regarding legal matters would be inappropriate to answer at this time due to pending court cases.

22. When did you first become aware or suspect in your audits of businesses associated with the Westerhuis's of what SD Attorney General has described as misappropriating "at least" \$1.2 Million from the state and federally funded Gear UP program?

Please see answer to question 21.

We weren't engaged to audit any "businesses" of the Westerhuis'. We only were engaged to audit the Mid Central Educational Cooperative.

23. When, to whom, and how did you report these \$1.2 misappropriations?

After the events that occurred in September 2015, we asked the SD Department of Legislative Audit to continue with the auditing duties. They had better access to DCI, Forensics, Fraud Division and the Attorney General's office. They looked at many of our documents and visited with us. Because of the media attention and various other expectations, the time they spent (not exactly known to us) would have been prohibitive to a private business with regular clients to serve. At that point in time, we were not informed of anything more than any other group of citizens until the reports were issued. The results were reported by SD DLA in their 2015 audit and their special report.

24. When did you first become aware or suspect what SD Attorney General describes as 17 illegal secret contracts let be Dan Guerke, worth \$3.8 million, that were not lawfully approved?

Please see answer to question 21.

25. When, to whom, and how did you report these \$3.8/ million worth of illegal contracts?

Please see answer to question 21.

26. When did you first become aware or suspect what SD Attorney General reports was evidence in the Gear Up financial records of over \$300,000 of "...misuse, or misapplication of monies designated for Native Americans and their education." By Stacy Phelps, Dan Guericke, and Stephanie Hubers?

Please see answer to question 21.

27. When, to whom, and how did you report \$300,000 of "misuse, or misapplication of monies designated for Native Americans and their education?"

Please see answer to question 21. Also, we had no access to nor were we hired to audit any entities outside of Mid-Central Cooperative.

28. Name what specific Schoenfish employees worked on each audit.

That is a question of a personnel matter of our private business which we will not answer. See answer to 19.

As stated in answer number 19, an audit is the responsibility of the firm and not of any specific employees. All employees of the firm are required to be competent and unbiased.

29. What specific state and Mid Central personnel did each Schoenfish employee brief or discuss any audits with?

We would refer you to the closing conference section of each audit.

See answers to questions 7 and 12 as well as 19 and 20 referring to professional auditing standards.

30. If Schoenfish auditors or company did not inform the Mid Central Board of the audits, why?

We were approved and hired by Mid-Central Cooperative's board to audit. Also, each board member received a copy of the final audit report. Therefore, they were fully aware of the audits.

See answers to questions 7 and 12.

31. Provide a detailed list of any and all items of financial worth received by any member of the Schoenfish accounting, from any person involved with Mid Central Educational Cooperative, the US Department of Education, SD Department of Education, or any other federal or state agency or official.

Individually, all of our employees are held to the highest standards. The AICPA code of ethics specifically addresses this issue in the AICPA Code of Professional Conduct Sections 1.120.010 and 1.285.010 and Section 1.520.

We are required to abide by these standards and do in all respects.

We have answered your questions in a professional and yet hopefully understandable manner. We would also remind you that we only audited the Mid Central Educational Cooperative. We were not engaged to audit nor were we ever provided any information from any other entities doing business with Mid Central Cooperative. When the SD Department of Legislative Audit prepared their 2015 Mid Central Educational Cooperative's audit report and Special Report, they had already audited the SD Department of Education, looked at our audit reports, had access to information from the non-profit

entities, to DCI information, fraud expertise information, the Eide Bailly, LLP report and the Attorney General's information. They spent an enormous amount of time and energy on this project, so please use that to your benefit regarding this matter. As explained to us by Tim Flannery, the GOAC has several basic purposes. One is to determine if some changes need to be made with any weaknesses with any department. Another is to suggest possible legislation to be brought before the House and Senate. In the future, perhaps the GOAC would better serve the citizens of South Dakota through a combined effort involving the Department of Legislative Audit and several firms that audit governmental entities in South Dakota in order to address potential weaknesses, legislation, or other local government matters.

Thank you for considering our guidance and considering our thoughts and opinions on the focus of the GOAC when debating these matters.

Schoenfish & Co., Inc.
Certified Public Accountants