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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

February 12, 2014

The Honorable Dennis Daugaard  
Governor of South Dakota

and

Government Operations and Audit Committee

This letter is intended to inform you of matters that must be formally communicated to those charged with governance in accordance with auditing standards generally accepted in the United States of America. These required communications include, but are not limited to, the following:

- 1) The auditor's views about qualitative aspects of the entity's significant accounting practices;
- 2) Any significant difficulties encountered during the audit;
- 3) Any disagreements with management;
- 4) Corrected and uncorrected misstatements, other than those that are trivial, brought to management's attention as a result of the audit;
- 5) Representations the auditor has requested from management;
- 6) Management's consultation with other accountants, if any;
- 7) Any significant issues arising from the audit that were discussed or communicated to management;
- 8) Any other findings or issues considered significant or relevant to those charged with governance regarding their oversight of the financial reporting process, such as any threats to auditor independence.

As part of performing the audit of the governmental funds of the South Dakota Governor's Office of Economic Development (GOED) consisting of a balance sheet – cash basis for the fiscal year ended of June 30, 2013 and the related statements of revenues, expenditures and changes in fund balances – cash basis for each of the four years then ended, we have identified the following matters that we feel are required to be communicated to those charged with governance.

As part of performing the audit of the governmental funds of the GOED for the four fiscal years ended June 30, 2013, we have identified the following matters that we feel are required to be communicated to those charged with governance:

### Qualitative Aspects Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant policies used by the GOED are described in Note 1 to the financial statements. This was the first year that an audit of the GOED governmental funds was performed. The financial statements were prepared on a cash basis of accounting which is a basis of accounting that differs from accounting principles generally accepted in the United States of America. We noted no transactions entered into by the GOED during the year for which there was a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Because these statements were prepared on a cash basis of accounting, there are no significant estimates that are integral to the financial statements.

### Difficulties Encountered in Performing the Audit

We noted no significant difficulties in dealing with management in performing and completing our audit.

### Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no significant disagreements arose during the course of our audit.

### Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are trivial, and communicate them to the appropriate level of management. Adjustments were recommended and posted to; 1) correct two classification errors in expenditures in the Future Fund which moved \$123,637.06 and \$118,196.61 reported as grants and subsidies to contractual services in FY2011 and FY2012, respectively, and, 2) eliminate the Research Proof-of-Concept Fund from being reported as a separate special revenue fund and to report it within the General Fund.

### Management Representations

We have requested certain representations from management that are included in the management representation letters dated February 12, 2014.

### Management's Consultation with other Accountants

In some cases management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If consultation involves application of an accounting principle to the State's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants. The GOED did utilize the Bureau of Finance and Management to assist in

preparing the financial statements and entered into contracts with two accounting firms to provide an internal control examination of the GOED and agreed upon-procedures engagements for certain expenditures.

#### Other Audit Findings or Issues

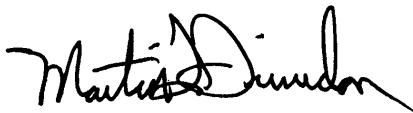
The audit did identify significant deficiencies, material weaknesses and duplicate and unsupported disbursement of state funds which are included in the report. Other findings to bring to your attention are as follows:

1. Travel vouchers for the former Secretary of the Department of Tourism and State Development included receipts that were in a foreign language and in foreign currency amounts. We believe the State Auditor or State Board of Finance should consider policies and procedures on the handling of these items for reimbursement.
2. Hosting costs are paid on GOED travel vouchers for reimbursing employees of costs incurred for dinners when GOED personnel are meeting with business prospects. We believe the State Auditor or State Board of Finance should consider policies and procedures on the handling of these items for reimbursement.
3. The SDRC Expense Fund that was funded from monies transferred from the SDRC Indemnification Fund One was to be used to pay for current or future EB-5 program expenses incurred by DTSD personnel. We noted travel expenses were paid using General Funds that were associated with Richard Benda's EB-5 activities in China. Although the contract with SDRC Inc. has been cancelled and it may not be possible, the state could look into obtaining reimbursement from Indemnification Fund One for any costs incurred in the General Fund above the balance that was transferred to it from the closing of the SDRC Expense Fund.

This communication is intended solely for the information and use of those charged with governance and, if appropriate, management and is not intended to be and should not be used by anyone other than those specified parties.

If you have any questions, please contact me at 773-3595.

Sincerely,

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with the first name "Martin" being the most prominent part.

Martin L. Guindon, CPA  
Auditor General