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AUDITOR GENERAL

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

The Honorable M. Michael Rounds  
Governor of South Dakota

Members of the Legislature  
State of South Dakota

Compliance

We have audited the compliance of the State of South Dakota 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 each of its major federal programs for the fiscal year ended June 30, 2009. The State of South Dakota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of audit findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of South Dakota's management. Our responsibility is to express an opinion on the State of South Dakota's compliance based on our audit. We did not audit the State of South Dakota's compliance with the requirements of the U.S. Department of Housing and Urban Development's HOME Investment Partnerships Program (CFDA Number 14.239) and the U.S. Department of Labor's Unemployment Insurance Program (CFDA Number 17.225). These programs, which account for 5.1 percent of the total of federal assistance received by the State of South Dakota, are included in the accompanying schedule of federal assistance. Other auditors have audited the State of South Dakota's compliance with these programs' requirements and their reports thereon have been furnished to us. Our opinion, insofar as it relates to these programs, is based solely on the reports of the other auditors.

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 the State of South Dakota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the

other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of South Dakota's compliance with those requirements.

In our opinion, the State of South Dakota complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of audit findings and questioned costs as finding numbers 06000200901, 11000200901, 12000200901 and 40014200902.

### Internal Control Over Compliance

Management of the State of South Dakota 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 State of South Dakota'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 and to test and report on internal control over compliance with OMB Circular A-133, 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 State of South Dakota's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of audit findings and questioned costs as finding numbers 08000200901, 10000200905, 10000200906 and 19000200901. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The State of South's Dakota's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and questioned costs. We did not audit the State's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the state's management, members of the South Dakota Legislature, federal awarding agencies and pass-through entities and is not and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with the first name "Martin" and last name "Guindon" clearly distinguishable.

Martin L. Guindon, CPA  
Auditor General

May 14, 2010