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MARTIN L. GUINDON, CPA
 AUDITOR GENERAL

**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**

The Honorable M. Michael Rounds
 Governor of South Dakota

Members of the Legislature
 State of South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of South Dakota as of and for the fiscal year ended June 30, 2009, which collectively comprise the State's basic financial statements as listed in the table of contents and have issued our report thereon dated March 31, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report was modified to include reference to other auditors. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Unemployment Insurance Fund, the South Dakota Retirement System, the South Dakota Housing Authority and certain foundations of Higher Education. Those financial statements reflect total assets and revenue and additions of the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information as follows:

	<u>Percent of Total Assets</u>	<u>Percent of Total Revenues/Additions</u>
Government-wide financial statements:		
Business-type activities:		
Unemployment Insurance Fund	2.3%	17.0%
Fund financial statements:		
Aggregate discretely presented component units:		
South Dakota Housing Authority	63.6%	17.2%
Foundations of Higher Education	9.5%	9.0%
Aggregate remaining fund information:		
Unemployment Insurance Fund	.2%	1.0%
South Dakota Retirement System	82.9%	47.9%

This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of South Dakota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding numbers 01001200901 and 15000200901 to be material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding numbers 10000200901, 15000200902 and 40014200901 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of South Dakota's financial statements are free of material misstatement, we and the other auditors performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our and the other auditors' tests disclosed instances no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that were reported on various dates in separately issued letters to the management of the various departments, bureaus, boards, commissions, offices and institutions of the State of South Dakota.

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

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 intended to be 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 a large initial "M" and "G".

Martin L. Guindon, CPA
Auditor General

March 31, 2010