The following was issued under a separate audit of the South Dakota Housing Development Authority by Eide Bailly.

PRIOR AUDIT FINDING

Financial Statement Audit Finding:

Finding No. 40014200801:

During the audit, we identified certain material items during our audit procedures that required adjustment to the financial statements. Our procedures also identified that the review of monthly and annual adjusting journal entries is not being performed on a consistent basis.

Auditee's Corrective Action Plan:

As of June 30, 2009 this finding has been resolved.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Financial Statement Audit Finding:

Finding No. 40014200901:

Management did not prepare and provide the methodology for the allowance for uncollectible receivables with respect to the various types of receivables.

Analysis:

Generally accepted accounting principles require that receivables be reduced to their estimated realizable value, which often requires that use of an allowance for uncollectible amounts.

Because the evaluation of an allowance account is inherently subjective and requires estimates that may be susceptible to significant changes, the determination of the allowance account should be supported by detailed documentation of the procedures performed to evaluate and review the various types of receivables and the methodology for determining the allowance amounts and provisions for estimated losses. As part of the audit procedures over the allowance, it was noted that management did not include supporting methodologies for each type of receivable, which did not include consideration for potential uncollectible accrued interest.

This condition may affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Management had estimated that the carrying value of the receivables approximated its net realizable value and that an allowance account was not deemed significant. While the recent financial real estate and mortgage crisis has not impacted South Dakota as much as other areas of the country, the Authority's practice of not recording an allowance for uncollectible receivables may no longer reflect the current economic climate and the risks present in the Authority's receivables.

RECOMMENDATION:

1. We recommend that management continue to refine and improve the documentation supporting the methodology for estimating the allowance for uncollectible receivables, and record an adjustment if the amount is deemed significant. Evaluation of the allowance for loan loss on a periodic basis during the year would reduce the need for substantial changes to the evaluation at year-end. An allowance methodology generally should include a detailed analysis of the receivable portfolio, performed on a regular basis with consideration given to all receivables and all known relevant internal and external factors that may affect collectability. The methodology should also be well documented, in writing, with clear explanations of the supporting analysis and rationale.

Auditee's Corrective Action Plan:

The Authority will develop a policy with regards to an allowance for uncollectible accounts using a methodology that will include a detailed analysis and documentation that will fully support the amounts determined to be uncollectible.

Federal Compliance Audit Finding:

Finding No. 40014200902:

Unspent program income funds were held in an account and were not spent prior to drawing additional funds from the U.S. Department of Housing and Urban Development (HUD).

CFDA Title: HOME Investment Partnerships Program
CFDA Number: 14.239
Federal Agency: U.S. Department of Housing and Urban Development
Type of Finding: Noncompliance
Category of Finding: Program Income

Questioned Costs: $85,001

Analysis:

Program income is required to be spent before any additional draw downs can be requested from HUD.

Unspent program income funds were held in the Home account and were not spent prior to drawing additional funds from HUD. As of December 31, 2008, the balance of unspent program income from HOME funds for disaster areas was $85,001.

The Authority made draw downs from HUD while it had unspent program income funds in the HOME account.

The Authority has a bank account in which HOME program income is deposited, which contained income received under projects funded under HOME. Investment Partnership Agreement for Disaster Areas funding received in 1993, a program that the Authority refers to as HOME Flood. Based on previous conversations with their HUD representative, the Authority intended to use the program income resulting from HOME Flood from prior years for disaster areas in an eligible program activity once sufficient funds were available to complete a project. As such, they held the unspent HOME Flood program income while administering their HOME program and its program income requirements. The Authority had notified HUD of the issue however was not informed that it was not complying with HUD's requirements. As such, the Authority was not aware they should have spent the HOME Flood funds prior to advancing additional HOME funds from HUD.

RECOMMENDATION:

2. We recommend the unspent HOME Flood program income funds be spent prior to any additional draw downs from HUD. In addition, we recommend close monitoring of program income received and expended prior to future draw downs.

Auditee's Corrective Action Plan:

After further review of the HOME Flood grant agreement and due to the minimal program income received at this time for HOME Flood, SDHDA removed the distinction of HOME Flood from these funds and will record any future payments as traditional HOME program income. The unspent program income funds were utilized prior to June 30, 2009 and prior to any future draws from HUD for HOME funds.