UNEMPLOYMENT INSURANCE FUND
SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2014

Ketel Thorstenson, LLP
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SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

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INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota
and
The South Dakota Department of Labor and Regulation
Pierre, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the **UNEMPLOYMENT INSURANCE FUND OF THE SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION** (the Fund), as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **UNEMPLOYMENT INSURANCE FUND OF THE SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION** as of June 30, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Honorable Dennis Daugaard
Governor of South Dakota
and
The South Dakota Department of Labor and Regulation

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Unemployment Insurance Fund and do not purport to, and do not, present fairly the financial position of the South Dakota Department of Labor and Regulation or the State of South Dakota, as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2014 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

September 15, 2014

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

BALANCE SHEET
UNEMPLOYMENT INSURANCE FUND
JUNE 30, 2014

Assets

Current Assets	
Cash (Note 2)	$ 72,444,860
Receivables, Net of Allowance for Doubtful Accounts of $2,755,164	1,469,796
Receivable From Other Governments	140,296
Receivable From Other State Funds (Note 3)	88,283
Total Assets	**$ 74,143,235**

Liabilities and Net Position

Current Liabilities	
Payable to Futures Fund	$ 4,435
Payable to Fiscal Administration Fund	5
Payable to Employment Security Contingency Fund	157,707
Total Current Liabilities	**162,147**

Commitments (Note 4)

Net Position	
Unrestricted	73,981,088
Total Liabilities and Net Position	**$ 74,143,235**

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2014

Operating Revenues	
Employer Contributions and Federal Assistance Payments	$ 46,016,445
Operating Expenses	
Unemployment Insurance Benefits	31,485,676
Operating Income	**14,530,769**
Non-Operating Revenue	
Pooled Investment Income	2,080,720
Income Before Transfers	**16,611,489**
Transfers (Note 3)	
Transfers To Other State Funds	(1,389,193)
Transfers From Other State Funds	1,165,490
Net Transfers	(223,703)
Change in Net Position	**16,387,786**
Total Net Position -- June 30, 2013	57,593,302
Total Net Position -- June 30, 2014	**$ 73,981,088**

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

STATEMENT OF CASH FLOWS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2014

Cash Flows From Operating Activities	
Receipts from Employers and Federal Government	$ 46,148,372
Payments for Benefits	(31,485,676)
Net Payments to Other Funds	(3,667)
Net Cash Flows Provided by Operating Activities	**14,659,029**
Cash Flows From Non-Capital Financing Activities	
Transfer To Employment Security Contingency Fund	(1,389,193)
Transfer From Employment Security Contingency Fund	1,165,490
Net Cash Flows Used in Non-Capital Financing Activities	**(223,703)**
Cash Flows From Investing Activities	
Cash Received for Pooled Investment Income	2,080,720
Net Increase in Cash During the Year	**16,516,046**
Cash – Beginning of Year	55,928,814
Cash – End of Year	**$ 72,444,860**
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:	
Operating Income	$ 14,530,769
Change in Assets and Liabilities:	
Receivables	60,166
Receivable From Other Governments	71,761
Receivable From Other State Funds	3,871
Payable to Other State Funds	(7,538)
Net Cash Flows Provided by Operating Activities	**$ 14,659,029**

The accompanying notes are an integral part of this statement.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

NOTES TO THE FINANCIAL STATEMENTS
UNEMPLOYMENT INSURANCE FUND
JUNE 30, 2014

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The South Dakota Department of Labor and Regulation (the Department) is the state agency responsible for providing job placement services, job training services, unemployment insurance services, and the enforcement of state labor laws. The Unemployment Insurance Fund (the Fund) is used to account for tax receipts from employers within the State of South Dakota and Federal Unemployment Programs and to account for benefits paid to unemployed persons. The accompanying financial statements present only the financial condition and results of operations of the Fund and do not represent a complete presentation of the Department's net position and activities.

b. Fund Accounting

The accounts of the Fund are organized for accounting and reporting purposes on the basis of fund accounting. The operations of the Fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses.

Enterprise funds are used to report a governmental activity funded by a charge to external users of services. The Fund is an enterprise fund established to account for funds that are expended for benefits paid to unemployed South Dakota workers. Fund revenues are collected from South Dakota employers based upon a percentage of qualifying wages paid and from direct federal funding. Cash balances of the Fund are required to be deposited with the U.S. Department of Treasury.

c. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. Significant estimates not disclosed elsewhere in the accompanying financial statements include:

An allowance for uncollectible receivables is maintained at a level which management believes is adequate to absorb probable uncollectible accounts. Management determines the adequacy of the allowance based on historical data, current economic conditions, and other pertinent factors for the Fund.

It is reasonably possible that this estimate will change significantly in the near term.

d. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

Proprietary funds are accounted for using the accrual basis of accounting. Revenues from unemployment taxes collected from employers are recognized in the period received because the amounts cannot be reasonably estimated prior to collection. Revenues from Federal Unemployment Programs are recognized when applicable benefit payments are made under such programs. Expenditures are generally recognized when the related fund liability is incurred.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
UNEMPLOYMENT INSURANCE FUND
JUNE 30, 2014

(1) Summary of Significant Accounting Policies (Continued)

e. Receivables and Payables

Receivables and payables are not aggregated in these financial statements. Receivables represent payments due from employers and benefit overpayments. The Fund expects all receivables to be collected within one year. Appropriate allowances for estimated uncollectibles have been established.

f. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses, and Changes in Fund Net Position, revenue and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

g. Application of Net Position

It is the Fund's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available. At June 30, 2014, all fund net position is considered unrestricted.

(2) Cash

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The Department's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts that exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of the bank's public debt rating, which may not be less than "AA" or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivisions or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2014, the Fund's cash consisted only of checking and pooled US Treasury Unemployment Insurance Funds. All of these accounts are insured or collateralized in the Fund's name. The Fund has no investment policies to restrict its investments beyond the state requirements noted above.

Custodial Credit Risk – The risk that, in the event of a depository failure, the Fund's deposits may not be returned to it. The Fund does not have a deposit policy for custodial credit risk. As of June 30, 2014, none of the Fund's deposits were exposed to custodial credit risk.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)
UNEMPLOYMENT INSURANCE FUND
JUNE 30, 2014

(3) Activity with Other State Funds

The Receivable From Other State Funds relates to unemployment insurance benefits paid to employees of other state agencies. The payables to other state funds represent interest and fees collected from employers that are required to be remitted to other state funds.

The Transfers To Other State Funds account for the interest and fees collected from employers and remitted to other state funds. Transfers From Other State Funds are transfers from another state fund in accordance with state statute 61-3-31.

(4) Commitments

Benefit payments to unemployed persons (claimants) are recorded when paid. Claimants may receive benefit payments for up to the lesser of twenty-six payments at their maximum weekly amounts (may be extended as part of federal programs) or as long as they continue to be eligible to receive payments. Eligibility to continue to receive benefit payments is determined on a weekly basis. Accordingly, no liability has been recorded for future benefit payments. The maximum remaining amount of benefits payable to claimants at June 30, 2014, is not determinable; however, the amount would be significant to the Fund's financial statements.

SUPPLEMENTARY INFORMATION

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2014

FUNDING SOURCE PROGRAM NAME	FEDERAL CFDA NUMBER	
U.S. Department of Labor		
Direct Programs:		
State Unemployment Insurance Benefits (Notes 1 and 2)	17.225	$ 28,559,015
Federal Unemployment Insurance Benefits (Note 2)	17.225	2,035,784
ARRA - Federal Emergency Unemployment Insurance Benefits (Notes 2 and 4)	17.225	890,877
Total Federal Funds Expenditures		**$ 31,485,676**

Note 1: This amount represents the State's expenditures for unemployment benefits and is reported as a major federal program as required by the U.S. Department of Labor and Regulation and the Inspector General.

Note 2: Considered major federal assistance programs pursuant to Department of Legislative Audit

Note 3: This schedule is prepared on the accrual basis of accounting.

Note 4. The balance includes $30,875 of refunds from overpayments of ARRA Federal Additional Compensation Unemployment Insurance Benefits.

OTHER REPORTS

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INDEPENDENT AUDITOR'S 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*

To Honorable Dennis Daugaard
Governor of South Dakota
and
The South Dakota Department of Labor and Regulation

We have audited, in accordance with the 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, the financial statements of the **UNEMPLOYMENT INSURANCE FUND OF THE SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION** (the Fund) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 15, 2014.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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 Fund's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Honorable Dennis Daugaard
Governor of South Dakota
and
The South Dakota Department of Labor and Regulation

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited for state and local governments.

KETEL THORSTENSON, LLP
Certified Public Accountants

September 15, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

To Honorable Dennis Daugaard
Governor of South Dakota
and
The South Dakota Department of Labor and Regulation

Report on Compliance for Each Major Federal Program

We have audited the compliance of the **UNEMPLOYMENT INSURANCE FUND OF THE SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION** (the Fund) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Fund's major federal program for the year ended June 30, 2014. The Fund's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal program.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance of the Fund's major federal program based on our audit of the types of compliance requirements referred to above. 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 Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the Fund's compliance.

Unmodified Opinion on the Major Federal Program
In our opinion, the Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2014.

To Honorable Dennis Daugaard
Governor of South Dakota
and
The South Dakota Department of Labor and Regulation

Report on Internal Control Over Compliance

Management of the Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Fund's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance 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 Fund'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 a 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. 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.

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 the internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding 2014-001 that we consider to be a significant deficiency.

The Fund's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of Report
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited for state and local governments.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

September 15, 2014

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2014

A. Summary of Audit Results

1. The independent auditor's report expresses an unmodified opinion on the financial statements of the Unemployment Insurance Fund (the Fund).

2. No deficiencies relating to the audit of the financial statements were reported in the Independent Auditor's 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.

3. No instances of noncompliance material to the financial statements of the Fund were disclosed during the audit.

4. One deficiency was disclosed during the audit of the major federal award program and is reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by OMB Circular A-133. This deficiency is considered to be a significant deficiency.

5. The independent auditor's report on compliance for the major federal award program for the Fund expresses an unmodified opinion.

6. One audit finding relative to the major federal program for the Organization is reported in Part C of this schedule.

7. The program tested as a major program included: State and Federal Unemployment Insurance CFDA# 17.225.

8. The threshold used for distinguishing between Type A and B programs was $7,000,000.

9. The Department was not considered a low risk auditee under the criteria established in OMB Circular A-133.

B. Findings – Financial Statement Audit

None

C. Findings and Questioned Costs -- Major Federal Award Programs Audit

Significant Deficiency

2014-001: EUC Benefit Payment

Condition and Effect: During our testing of Emergency Unemployment Compensation (EUC) benefit payments, we noted one instance where the EUC calculation was not based on the most recent sequestration rate, resulting in the EUC benefit being underpaid.

Cause: The EUC benefits are the result of a temporary federal program and therefore are unusual to the Fund's normal benefit payment processing. The Fund's review process did not identify the instance noted above.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2014

C. Findings and Questioned Costs -- Major Federal Award Programs Audit (Continued)

Significant Deficiency (Continued)

2014-001: EUC Benefit Payment (Continued)

Criteria: The EUC benefit amounts should be based on the current sequestration rate.

Questioned Costs: None

Recommendation: EUC calculations were internally reviewed for propriety and accuracy prior to the claimant eligibility letter being generated. A process should be developed to ensure the most recent sequestration rate is used.

Response/Corrective Action Plan: As federal EUC no longer exists as of January 1, 2014, the UI Division does not anticipate encountering future errors of this type. If the EUC is again started, the UI Division will institute policies and procedures to ensure all claimants receive proper benefits.

Status of Prior Audit Findings

During our testing of the Emergency Unemployment Compensation (EUC) benefit payments in the prior year, we noted one error in the EUC calculations. The error was due to the Fund not using the most recent Monetary Benefit Determination, resulting in the EUC maximum benefit being less than it should have been. During our testing of EUC benefit payments for the year ending June 30, 2014, we identified one error in EUC calculations. Considering such, finding 2013-1 is revised and repeated in the current year as finding 2014-001.