

**GOVERNMENTAL FUNDS OF THE SOUTH DAKOTA
GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT**

AUDIT REPORT

**As of June 30, 2013 and for
the four fiscal years then ended**



**State of South Dakota
Department of Legislative Audit
427 South Chapelle
% 500 East Capitol
Pierre, SD 57501-5070**

SOUTH DAKOTA
GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT
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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

Transmittal Letter

**Audit Report on the Governmental Funds of the Governor's Office of Economic Development
as of and for the four years ended June 30, 2013**

February 12, 2014

The Honorable Dennis Daugaard
Governor of South Dakota

Pat Costello, Commissioner
Governor's Office of Economic Development

and

Members of the South Dakota Legislature

We herewith submit our report on the audit of the Governmental Funds of the Governor's Office of Economic Development (GOED) as of and for the four fiscal years ended June 30, 2013. While it is not a standard practice for us to issue transmittal letters with our financial audits, we believe the nature of the events that resulted in this audit engagement makes additional explanation of the scope and results of our audit appropriate.

Our primary responsibility in conducting this audit was to issue opinions on whether the financial statements are fairly presented in all material respects. In planning and performing our audit, we also evaluated the Governor's Office of Economic Development's (GOED) internal controls over financial reporting including the receiving and expending of state and federal funds. During our audit we also tested the GOED's compliance with laws, regulations, contracts and grants that we deemed important to our audit.

Since our audit was conducted in accordance with Government Auditing Standards, we had additional responsibilities. First, we were required to identify and assess the risks of fraud that could be material to the financial statements and other financial data related to the GOED's compliance with contracts and grant agreements. Additionally, if during our audit we became aware of abuse that was quantitatively or qualitatively material, we were required to determine the impact the abuse had on the financial statements and other financial data. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.

Our testing of GOED's contracts included the contract between the former Department of Tourism and State Development (DTSD) and the SDRC, Inc. which related to the administration of a regional center as authorized by U.S. Citizenship and Immigration Services under its EB-5 program. In evaluating this contract, we considered the responsibilities the SDRC, Inc. had to the GOED/DTSD in administering the regional center under the terms of the contract as within the scope of our audit because these responsibilities related to the conduct of a government function involving the administration of public funds. Thus, two funds known as the Expense Fund and Indemnification Fund One created pursuant to the terms of the contract were included in the scope of our audit because we determined the assets and financial activity of these accounts should be accounted for in the GOED's financial statements. However, we considered responsibilities the SDRC, Inc. had to individual EB-5 investors, contractors, related limited partnerships and the projects receiving loans as outside the scope of our audit because these responsibilities related to matters between private entities.

Audits by their nature include findings and recommendations related to matters where the auditors were able to form conclusions that misstatements, internal control deficiencies, noncompliance, fraud or abuse existed that auditing standards require be included in the audit report. Our audit report contains such findings and recommendations and we encourage the GOED to consider implementing our recommendations to help reduce the risk of future recurrence of similar matters.

Audit reports do not generally include matters that the auditors considered, but for which they do not determine that there was noncompliance. However, given the nature of the circumstances leading to our engagement to perform this audit, we believe it is necessary to discuss one such matter that is not addressed in any of the findings included in our audit report.

There have been numerous press reports and comments by various parties concerning the \$1,000,000 dollar grant from the DTSD to Northern Beef Packers LP (NBP) for reimbursement of construction costs and that \$550,000 of this grant may have been diverted from its intended purpose. Based on the evidence gathered during our audit, we did not determine that there was any noncompliance with state law on the part of DTSD in the issuance of this grant or noncompliance on the part of DTSD or NBP with the terms of the grant. Our audit does not provide a legal determination regarding this matter. Any criminal findings that may be associated with this matter are the purview of the state and federal criminal investigations being conducted and are not within the scope of our audit responsibilities. We do report a material weakness in policies and procedures concerning potential conflict of interest related to this matter in the audit finding on page 35 of the report. Finally, we believe that the use of the \$550,000 is a matter between private parties and consequently not within the scope of our audit.

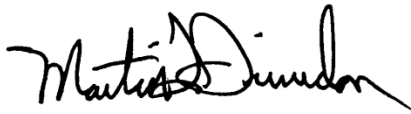
Our audit report includes the required standard content for financial audits conducted in accordance with auditing standards issued by the American Institute of Certified Public Accountants and the additional standards for conducting financial statement audits required by Government Auditing Standards issued by the U.S. Office of Management and Budget. This content consists of:

- Independent auditor's report on the financial statements and supplementary information, in which we express unqualified opinions for all of the governmental funds of the GOED. Page 1.
- Basic financial statements which are presented on the cash basis of accounting. Pages 4-13.
- Notes to the financial statements which provide additional disclosures regarding items included in or related to the basic financial statements. Pages 15-22.
- Supplementary information prepared by the GOED to provide additional financial details related to the federal programs administered by the GOED. Pages 24-29.

- Report on internal control and compliance over financial reporting and on compliance and other matters which describes our audit responsibilities related to these matters and refers the reader to associated written audit findings included in our report. Page 31.
- Our written audit findings, in which we report deficiencies noted during our audit along with our related recommendations. GOED's response which provides GOED management's view of our audit findings and recommendations immediately follows our recommendations for each finding. Pages 33-42.

We wish to thank the management and staff of the Governor's Office of Economic Development for the cooperation and assistance they provided us during our audit.

Respectfully submitted,

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



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard
Governor of South Dakota

and

Pat Costello, Commissioner
Governor's Office of Economic Development

Report on the Financial Statements

We have audited the accompanying cash basis of accounting financial statements of the governmental funds of the South Dakota Governor's Office of Economic Development, an office of the State of South Dakota, which include the balance sheet – cash basis as 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, and the related notes to the financial statements, which collectively comprise the Office's basic 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 the cash basis of accounting described in Note 1.C.; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in these circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Unmodified Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position on a cash basis of accounting of the governmental funds of the South Dakota Governor's Office of Economic Development as of June 30, 2013, and the respective changes in its financial position for each of the four years then ended in accordance with the cash basis of accounting described in Note 1.C. to the financial statements.

Basis of Accounting

We draw attention to Note 1.C. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As described in Note 1, the financial statements present only the financial position and changes in financial position of the governmental funds of the South Dakota Governor's Office of Economic Development. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2013, and the changes in its financial position and its cash flows, where applicable, for the four years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

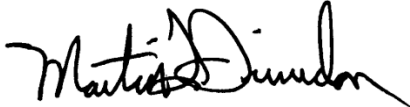
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the governmental funds of the South Dakota Governor's Office of Economic Development. The balance sheet – federal funds – cash basis for the year ended June 30, 2013 and the statements of revenues, expenditures and changes in fund balances – federal funds - cash basis for each of the four years then ended are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The balance sheet – federal funds – cash basis and the statements of revenues, expenditures and changes in fund balances – federal funds - cash basis are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the balance sheet – federal funds – cash basis and the statements of revenues, expenditures and changes in fund balances – federal funds - cash basis are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2014 on our consideration of the South Dakota Governor's Office of Economic Development's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 South Dakota Governor's Office of Economic Development's internal control over financial reporting and compliance.

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

February 12, 2014

STATE OF SOUTH DAKOTA
 Governor's Office of Economic Development
 Balance Sheet - Cash Basis
 Governmental Funds
 June 30, 2013

	<u>General Fund Appropriation</u>	<u>Employer's Investment in South Dakota's Future Fund</u>	<u>Federal Funds SD Works</u>	<u>Federal Funds Others</u>	<u>Energy Conservation Loan Fund</u>
Assets:					
Cash Pooled with State Treasurer	\$ 500,000	\$ 46,016,891	\$ 5,756,351	\$ 534,613	\$ 7,533,031
Restricted Cash	1,018,186				
Total Revenue Assets	<u>\$ 1,518,186</u>	<u>\$ 46,016,891</u>	<u>\$ 5,756,351</u>	<u>\$ 534,613</u>	<u>\$ 7,533,031</u>
Fund Balances:					
Restricted	\$ 1,018,186	\$ 46,016,891	\$ 5,756,351	\$ 534,613	\$ 7,533,031
Assigned	500,000				
Total Fund Balances	<u>\$ 1,518,186</u>	<u>\$ 46,016,891</u>	<u>\$ 5,756,351</u>	<u>\$ 534,613</u>	<u>\$ 7,533,031</u>

The notes to the financial statements are an integral part of this statement.

<u>Ethanol Infrastructure Incentive Fund</u>	<u>Economic Development Partnership Fund</u>	<u>Local Infrastructure Improvement Grant Fund</u>	<u>GOED Special Revenue Fund</u>	<u>Total</u>
\$ 1,165,588	\$ 1,050,000	\$ 1,750,000	\$ 520,592	\$ 64,827,066
				1,018,186
<u>\$ 1,165,588</u>	<u>\$ 1,050,000</u>	<u>\$ 1,750,000</u>	<u>\$ 520,592</u>	<u>\$ 65,845,252</u>
\$ 1,165,588	\$ 1,050,000	\$ 1,750,000	\$ 520,592	\$ 62,545,252
				3,300,000
<u>\$ 1,165,588</u>	<u>\$ 1,050,000</u>	<u>\$ 1,750,000</u>	<u>\$ 520,592</u>	<u>\$ 65,845,252</u>

STATE OF SOUTH DAKOTA
 Governor's Office of Economic Development
 Statement of Revenues, Expenditures and
 Changes in Fund Balances - Cash Basis
 Governmental Funds
 For the Fiscal Year Ended June 30, 2013

	General Fund Appropriation	Employer's Investment in South Dakota's Future Fund	Federal Funds SD Works	Federal Funds Others	Energy Conservation Loan Fund
Revenue:					
Taxes	\$	\$ 14,021,402	\$	\$	\$
Use of Money and Property		708,738	130,284		238,587
Sales and Services	422,167		700		
Administering Programs			4,345,555	8,736,517	
State Appropriations	7,134,580				
Loan Repayments			880,567	396,248	301,459
Other Revenue	1,011	450,000			
Total Revenue	<u>7,557,758</u>	<u>15,180,140</u>	<u>5,357,106</u>	<u>9,132,765</u>	<u>540,046</u>
Expenditures:					
Personal Services and Benefits	1,737,387		21,841	281,083	24,292
Travel	294,084		8,237	4,641	905
Contractual Services	1,011,542		29,910	30,402	494
Supplies and Materials	60,532		1,197	560	
Grants and Subsidies	3,922,951	7,814,848	2,243,195	8,414,021	2,706,614
Capital Outlay	109,095			655	75
Other Expenses					49,628
Total Expenditures	<u>7,135,591</u>	<u>7,814,848</u>	<u>2,304,380</u>	<u>8,731,362</u>	<u>2,782,008</u>
Excess of Revenues Over (Under) Expenditures	422,167	7,365,292	3,052,726	401,403	(2,241,962)
Other Financing Sources (Uses);					
Transfers In	500,000	2,000,000			
Transfers Out					
Net Other Financing Sources (Uses)	<u>500,000</u>	<u>2,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	922,167	9,365,292	3,052,726	401,403	(2,241,962)
Fund Balances at Beginning of Year	<u>596,019</u>	<u>36,651,599</u>	<u>2,703,625</u>	<u>133,210</u>	<u>9,774,993</u>
Fund Balances at End of Year	<u>\$ 1,518,186</u>	<u>\$ 46,016,891</u>	<u>\$ 5,756,351</u>	<u>\$ 534,613</u>	<u>\$ 7,533,031</u>

The notes to the financial statements are an integral part of this statement.

<u>Ethanol Infrastructure Incentive Fund</u>	<u>Economic Development Partnership Fund</u>	<u>Local Infrastructure Improvement Grant Fund</u>	<u>GOED Special Revenue Fund</u>	<u>Total</u>
\$ 1,000,000	\$	\$	\$	\$ 15,021,402
				1,077,609
			222,302	645,169
				13,082,072
				7,134,580
				1,578,274
			344,466	795,477
<u>1,000,000</u>	<u>0</u>	<u>0</u>	<u>566,768</u>	<u>39,334,583</u>
7,095			9	2,071,707
410			48,613	356,480
			275,673	1,348,431
			63,428	125,717
569,802				25,671,431
				109,825
				49,628
<u>577,307</u>	<u>0</u>	<u>0</u>	<u>387,723</u>	<u>29,733,219</u>
422,693	0	0	179,045	9,601,364
	1,050,000	1,750,000		5,300,000
			(1,600)	(1,600)
<u>0</u>	<u>1,050,000</u>	<u>1,750,000</u>	<u>(1,600)</u>	<u>5,298,400</u>
422,693	1,050,000	1,750,000	177,445	14,899,764
<u>742,895</u>			<u>343,147</u>	<u>50,945,488</u>
<u>\$ 1,165,588</u>	<u>\$ 1,050,000</u>	<u>\$ 1,750,000</u>	<u>\$ 520,592</u>	<u>\$ 65,845,252</u>

STATE OF SOUTH DAKOTA
 Governor's Office of Economic Development
 Statement of Revenues, Expenditures and
 Changes in Fund Balances - Cash Basis
 Governmental Funds
 For the Fiscal Year Ended June 30, 2012

	General Fund Appropriation	Employer's Investment in South Dakota's Future Fund	Federal Funds SD Works	Federal Funds Others	Energy Conservation Loan Fund
Revenue:					
Taxes	\$	\$ 13,470,088	\$	\$	\$
Use of Money and Property		894,599	9,751		275,033
Sales and Services	357,707		300		
Administering Programs			4,345,556	10,150,817	
State Appropriations	6,282,739				
Loan Repayments				151,040	276,673
Other Revenue	1,763	1,640,000			
Total Revenue	<u>6,642,209</u>	<u>16,004,687</u>	<u>4,355,607</u>	<u>10,301,857</u>	<u>551,706</u>
Expenditures:					
Personal Services and Benefits	1,726,333		4,979	306,977	
Travel	294,354		3,079	3,494	
Contractual Services	480,025	118,197	12,786	47,133	
Supplies and Materials	60,608		1,138	589	
Grants and Subsidies	3,672,953	7,250,313	1,630,000	9,687,151	83,512
Capital Outlay	50,229			796	
Total Expenditures	<u>6,284,502</u>	<u>7,368,510</u>	<u>1,651,982</u>	<u>10,046,140</u>	<u>83,512</u>
Excess of Revenues Over (Under) Expenditures	357,707	8,636,177	2,703,625	255,717	468,194
Other Financing Sources (Uses);					
Transfers In					
Transfers Out				(1,052)	
Net Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,052)</u>	<u>0</u>
Net Change in Fund Balances	357,707	8,636,177	2,703,625	254,665	468,194
Fund Balances at Beginning of Year	<u>238,312</u>	<u>28,015,422</u>		<u>(121,455)</u>	<u>9,306,799</u>
Fund Balances at End of Year	<u>\$ 596,019</u>	<u>\$ 36,651,599</u>	<u>\$ 2,703,625</u>	<u>\$ 133,210</u>	<u>\$ 9,774,993</u>

The notes to the financial statements are an integral part of this statement.

Ethanol Infrastructure Incentive Fund	GOED Special Revenue Fund	Total
\$ 1,000,000	\$	\$ 14,470,088
		1,179,383
	169,645	527,652
		14,496,373
		6,282,739
		427,713
	250,962	1,892,725
<u>1,000,000</u>	<u>420,607</u>	<u>39,276,673</u>
10,077	4	2,048,370
310	22,749	323,986
1,242	188,363	847,746
476	58,603	121,414
245,000		22,568,929
		51,025
<u>257,105</u>	<u>269,719</u>	<u>25,961,470</u>
742,895	150,888	13,315,203
	1,052	1,052
		(1,052)
<u>0</u>	<u>1,052</u>	<u>0</u>
742,895	151,940	13,315,203
	191,207	37,630,285
<u>\$ 742,895</u>	<u>\$ 343,147</u>	<u>\$ 50,945,488</u>

STATE OF SOUTH DAKOTA
 Governor's Office of Economic Development
 Statement of Revenues, Expenditures and
 Changes in Fund Balances - Cash Basis
 Governmental Funds
 For the Fiscal Year Ended June 30, 2011

	General Fund Appropriation	Employer's Investment in South Dakota's Future Fund	Federal Funds Others	Energy Conservation Loan Fund	GOED Special Revenue Fund
Revenue:					
Taxes	\$	\$ 12,400,469	\$	\$	\$
Use of Money and Property		1,181,763		317,559	
Sales and Services	237,322				117,761
Administering Programs			19,662,844		
State Appropriations	7,365,913				
Loan Repayments				2,657,297	
Other Revenue					187,744
Total Revenue	<u>7,603,235</u>	<u>13,582,232</u>	<u>19,662,844</u>	<u>2,974,856</u>	<u>305,505</u>
Expenditures:					
Personal Services and Benefits	1,799,511		314,122		
Travel	184,732		11,432		33,053
Contractual Services	547,329	123,637	43,699		199,007
Supplies and Materials	68,733		475		64,606
Grants and Subsidies	4,768,854	11,725,676	19,248,502		
Capital Outlay	56,146				
Total Expenditures	<u>7,425,305</u>	<u>11,849,313</u>	<u>19,618,230</u>	<u>0</u>	<u>296,666</u>
Excess of Revenues Over (Under) Expenditures	177,930	1,732,919	44,614	2,974,856	8,839
Other Financing Sources (Uses);					
Transfers In					
Transfers Out					(4,628)
Net Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(4,628)</u>
Net Change in Fund Balances	177,930	1,732,919	44,614	2,974,856	4,211
Fund Balances at Beginning of Year	<u>60,382</u>	<u>26,282,503</u>	<u>(166,069)</u>	<u>6,331,943</u>	<u>186,996</u>
Fund Balances at End of Year	<u>\$ 238,312</u>	<u>\$ 28,015,422</u>	<u>\$ (121,455)</u>	<u>\$ 9,306,799</u>	<u>\$ 191,207</u>

The notes to the financial statements are an integral part of this statement.

Total

\$ 12,400,469
1,499,322
355,083
19,662,844
7,365,913
2,657,297
187,744
44,128,672

2,113,633
229,217
913,672
133,814
35,743,032
56,146
39,189,514

4,939,158

(4,628)
(4,628)

4,934,530
32,695,755

\$ 37,630,285

STATE OF SOUTH DAKOTA
 Governor's Office of Economic Development
 Statement of Revenues, Expenditures and
 Changes in Fund Balances - Cash Basis
 Governmental Funds
 For the Fiscal Year Ended June 30, 2010

	General Fund Appropriation	Employer's Investment in South Dakota's Future Fund	Federal Funds Others	Energy Conservation Loan Fund	GOED Special Revenue Fund
Revenue:					
Taxes	\$	\$ 11,514,118	\$	\$	\$
Use of Money and Property		951,151		282,762	
Sales and Services	68,250				99,505
Administering Programs			13,276,266		
State Appropriations	7,183,576				
Loan Repayments				618,405	
Other Revenue	3,312	7,158			274,916
Total Revenue	<u>7,255,138</u>	<u>12,472,427</u>	<u>13,276,266</u>	<u>901,167</u>	<u>374,421</u>
Expenditures:					
Personal Services and Benefits	1,795,368		308,578		
Travel	312,171		6,127		4,471
Contractual Services	517,438		140,686		340,422
Supplies and Materials	63,253		3,300		80,019
Grants and Subsidies	4,492,313	9,785,964	12,950,999	10,429	
Capital Outlay	14,213				
Total Expenditures	<u>7,194,756</u>	<u>9,785,964</u>	<u>13,409,690</u>	<u>10,429</u>	<u>424,912</u>
Excess of Revenues Over (Under) Expenditures	60,382	2,686,463	(133,424)	890,738	(50,491)
Other Financing Sources (Uses);					
Transfers In					
Transfers Out					
Net Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	60,382	2,686,463	(133,424)	890,738	(50,491)
Fund Balances at Beginning of Year		23,596,040	(32,645)	5,441,205	237,487
Fund Balances at End of Year	<u>\$ 60,382</u>	<u>\$ 26,282,503</u>	<u>\$ (166,069)</u>	<u>\$ 6,331,943</u>	<u>\$ 186,996</u>

The notes to the financial statements are an integral part of this statement.

Total

\$ 11,514,118
1,233,913
167,755
13,276,266
7,183,576
618,405
285,386
34,279,419

2,103,946
322,769
998,546
146,572
27,239,705
14,213
30,825,751

3,453,668

0

3,453,668

29,242,087

\$ 32,695,755

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*NOTES TO THE
SPECIAL PURPOSE CASH BASIS FINANCIAL STATEMENTS*

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*STATE OF SOUTH DAKOTA
GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT
GOVERNMENTAL FUNDS
NOTES TO THE SPECIAL PURPOSE CASH BASIS FINANCIAL
STATEMENTS
For Years ending **JUNE 30, 2013, 2012, 2011, and 2010***

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Governor's Office of Economic Development (GOED) works together with businesses, government organizations, educational institutions, and individual citizens to maximize and leverage public-private sector partnerships to generate new ideas, to develop new business, to strengthen existing businesses, and to encourage additional investment in South Dakota to improve the quality of life for all South Dakotans.

As discussed further in Note 1.C. these financial statements are presented on a cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Financial Reporting Entity

The GOED was created by SDCL 1-53-1. For the purposes of this report, the GOED consists of the Governor's Office of Economic Development and the Office of Research Commerce. During fiscal years 2010 and 2011 these were administered under the Department of Tourism and State Development. As a result of Executive Order 11-1, these two offices were transferred to the Department of Executive Management beginning in fiscal year 2012.

GOED administers various governmental funds, an enterprise fund, and several component units placed under it administratively. The enterprise fund and component units have separately issued audited financial statements which are found on the South Dakota Department of Legislative Audit website at <http://legislativeaudit.sd.gov/home.htm>. GOED governmental funds are included in the State's audited Comprehensive Annual Financial Report and Single Audit report. There is no requirement to have separately issued financial statement for these governmental funds and the GOED has elected, for the purposes of transparency, to issue these special purpose cash basis financial statements. These statements are not intended to be in compliance with accounting principles generally accepted in the United States of America (GAAP).

Component units are legally separate organizations for which the primary government is financially accountable. The State is financially accountable if its State appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the State (primary government). The State may also be financially accountable for another organization if that organization is fiscally dependent on the State. As identified, this report only presents the governmental funds of the GOED.

B. Basis of Presentation

Fund financial statements of the GOED are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. For the purpose of these special purpose cash basis financial statements, the following governmental funds within the GOED are reported:

General Fund Appropriation

The General Fund Appropriation represents the general operating fund of the GOED. It accounts for all financial resources that were appropriated to it under the annual General Appropriations Act, except those required to be accounted for in another fund.

The Proof of Concept Fund was funded with a \$500,000 appropriation from the State General Fund. The Proof of Concept Fund was created to provide up to \$25,000 investments for eligible applicants to conduct research demonstrating the technical and economic feasibility of an innovation significantly enhancing the likelihood of commercialization of the innovation. Eligible applications for "Proof of Concept" investments include: entrepreneurs, universities, existing South Dakota companies, or other entities committed to commercializing the results in South Dakota. Because the fund does not have a dedicated source of revenue it does not qualify to be reported as a special revenue fund and was included in the General Fund Appropriations for reporting purposes.

EB-5 Program - The Immigrant Investor Program (also known as the EB-5 Program) was authorized by the United States Congress in 1990, to stimulate the U.S. economy through job creation and capital investment by foreign investors. The United States Citizenship and Immigration Service (USCIS) administers the EB-5 Program, which provides a method for foreign investors to obtain a green card by investing \$1,000,000 and creating or preserving at least 10 full-time jobs for qualifying U.S. workers.

The Regional Center Pilot Program, which was enacted in 1992, provides for a minimum foreign investment of \$500,000 under the EB-5 Program for investments made in Targeted Employment Areas (high unemployment or rural area), in addition to counting both direct and indirect job creation for purposes of meeting the requirement of creating or preserving at least 10 full-time jobs. The South Dakota Regional Center, which has been approved and designated by the USCIS as a Regional Center within the Immigrant Investor Pilot Program since 2004, is responsible for approving qualifying projects within its geographic boundaries and filing the documentation required under the EB-5 Program with the USCIS.

On December 22, 2009, South Dakota Department of Tourism and State Development (DTSD) set up a consulting contract with SDRC, Inc. (SDRC) to administer the Regional Center and the EB5 Program and to market the EB5 Program for the benefit of South Dakota, all in conformity with applicable federal statutes and regulations. GOED (formerly the DTSD) terminated this contract on September 19, 2013. Within this contract, several accounts were created. The two accounts reported by the GOED are maintained and administered by SDRC and are as follows:

- *SDRC Indemnification Fund One* account was created in the aforementioned contract and is maintained and administered by SDRC for the purpose of satisfying any obligations of SDRC to indemnify GOED (formerly DTSD) in excess of the coverage provided by the professional liability insurance purchased by SDRC Inc. and the balance of SDRC Inc.'s Indemnification Fund Two. This account is not accessible by GOED until six years and sixty days following cancellation of the contract.
- *SDRC Expense Fund* account was created in the aforementioned contract and is maintained and administered by SDRC. The purpose of this account is to pay current and future expenses incurred by representatives of GOED in connection with the assistance provided by GOED and others concerning projects undertaken by SDRC. The account also pays for promoting the EB-5 Program and related projects, and for GOED monitoring and reviewing SDRC's activities. Upon termination of the contract, any remaining funds in the SDRC Expense Fund are to be transferred back to GOED.

The EB-5 Program (which include SDRC Indemnification Fund One account and SDRC Expense Fund account) are included in the General Fund Appropriations for reporting

Employer's Investment in South Dakota's Future Fund

The Employer's Investment in South Dakota's Future Fund was created by SDCL 61-5-29.1 to be used for purposes related to research and economic development for the State. The Employer's Investment in South Dakota's Future Fund derives its revenue from the Investment Fee paid on South Dakota Department of Labor and Regulation's Employer's Contribution in accordance with SDCL 61-5-29.

Federal Funds - SD Works

This fund offers business and commercial loans to entities needing working capital (such as startup costs, payroll, and inventory needs), interim construction needs on new buildings, and equipment needs for a term from one to five years. The loan structure should be 80 percent from lead bank and 20 percent from the WORKS program. This program is funded through the U.S. Treasury.

Federal Funds - Other

The Federal Funds account for specific federal grant program revenue that is legally restricted to expenditures for specific purposes. The grants accounted for within the fund include the; Community Development Block Grant, Community Economic Diversification Grant, Promotion of the Arts Partnership Agreements Grant, Federal and State Technology Partnership Program, and the State Energy Program Grants which include the State Energy Program, Energy Efficiency and Conservation Block Grant and the Energy Efficient Appliance Rebate Program.

Energy Conservation Loan Fund

The Federal Energy Conservation Loan Fund provides financial and technical assistance to state governments to create and implement a variety of energy efficiency and conservation projects. These projects maximize the benefits of energy efficiency and renewable energy through communication and outreach activities with the following objectives: (1) To reduce fossil fuel emissions created as a result of activities within the jurisdictions of eligible entities; (2) To reduce the total energy use of the eligible entities; and (3) To improve energy efficiency in the transportation, building, and other sectors. This fund receives its funding from oil overage lawsuit settlements disbursed by the U.S. Department of Energy.

Ethanol Infrastructure Incentive Fund

The Ethanol Infrastructure Incentive Fund is used to award incentive grants to motor fuel retail dealers to encourage the installation of infrastructure related to sale and distribution of ethanol, along with other activities that increase demand for ethanol production in South Dakota. Funding was made possible by a partnership between South Dakota Ethanol Producers and the State of South Dakota by reducing South Dakota Ethanol Producers Payments while temporarily allocating a portion of their remaining Ethanol Producer Payments to the blender-pump grant program and a portion to the Revolving Economic Development Initiative fund.

Economic Development Partnership Fund

Economic Development Partnership Fund was created by SDCL 1-16G-51 for the purpose of funding grants to any nonprofit development corporation, municipality, county, or other political subdivision of this state on a matching basis. The Board of Economic Development, administered with the GOED, may award grants from the Economic Development Partnership Fund for the purpose of developing or expanding local, community, and economic development programs, or to commence or replenish a local revolving loan fund for the purpose of developing or expanding housing, community, and economic development programs. The Economic Development Partnership Fund was initially funded by a General Fund appropriation and will receive fifteen percent of the Building South Dakota Fund as provided by SDCL 1-16G-48.

Local Infrastructure Improvement Grant Fund

Local Infrastructure Improvement Grant Fund was created by SDCL 1-16G-50 for the purpose of funding grants to any political subdivision of this state or local development corporation. The Board of Economic Development, administered within the GOED, may award grants from the Local Infrastructure Improvement Grant Fund to construct or reconstruct infrastructure for the purpose of serving an economic development project. The Local Infrastructure Improvement Grant Fund was initially funded by a General Fund appropriation and will receive twenty-five percent of the Building South Dakota Fund as provided by SDCL 1-16G-48.

Governor's Office of Economic Development Special Revenue Fund

Governor's Office of Economic Development Special Revenue Fund was created by SDCL 1-53-7 to account for monies collected from outside sources for the purpose of economic development. The fund shall be used for legitimate purposes of soliciting industry and carrying into effect the objectives of the GOED.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is a term used to describe how transactions are recorded within the various financial statements. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The GOED's basis of accounting is the cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the cash basis of accounting, transactions are recorded in the accounts when cash is received or disbursed instead of when revenue is earned and expenditures are incurred. Therefore, receivables and payables, which may be material in amount, are not reflected in the accompanying financial statements.

Measurement Focus:

In the fund financial statements, the "current financial resources" measurement focus is used and applied within the limitations of the cash basis of accounting.

Basis of Accounting:

The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of position reports only cash and cash equivalents.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the GOED applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting.

D. Cash and Cash Equivalents

Cash Pooled with the State Treasurer:

Cash includes cash on hand and cash in the State Treasury. South Dakota Codified Laws (SDCL) and administrative rules authorize the types of deposits and investments. Most State public funds are invested in the Cash Flow Portfolio using the pooled deposit and investment concept. This concept allows for the deposit and investment of aggregate idle fund monies, while preserving the integrity of fund cash balances of each state fund.

Restricted Cash:

Restricted cash consists of the two SDRC accounts (as reported in the General Fund Appropriation) discussed in Note 1.B. above.

The cash in the SDRC Indemnification Fund One account and the SDRC Expense Fund account (as reported in the General Fund Appropriation) are held and administered by SDRC. GOED does not have access to these funds. GOED requested the balance of the SDRC Expense Fund to be transferred immediately upon termination of the contract. On January 30, 2014 the balance was deposited into the State General Fund. The cash in the SDRC Indemnification Fund must be held for the purposes the fund was created for six years and sixty days following cancellation of the contract.

E. Expenditure Classification

The expenditures are reported in the financial statements by expenditure type distinguishing between personal services and operating classifications.

F. Fund Balance Classification Policies and Procedures

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the State is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. For the purpose of these special purpose cash basis financial statements, Fund Balances will be reported in four different categories on a cash basis:

Restricted fund balance consists of assets that have externally imposed constraints placed on them by either creditors, grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation of the State.

Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature through legislation passed into law.

Assigned fund balance includes amounts that are constrained by the State's intent to be used for specific purposes, but are neither restricted nor committed. Assignments of fund balance are created by the executive branch or by directive of the Appropriations Committee of the Legislature or in some cases by passage of an appropriation. In governmental funds other than the General Fund, assigned fund balance also represents the remaining amount that is not restricted or committed.

Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Unassigned fund balance also includes negative residual balances in other governmental funds.

At June 30, 2013 the GOED's governmental funds reported fund balances as follows:

Restricted by enabling legislation for economic development purposes:

Employer's Investment in South Dakota's Future Fund	\$ 46,016,891
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Restricted by enabling legislation for energy conservation or development:

Energy Conservation Loan Fund	\$ 7,533,031
Ethanol Infrastructure Incentive Fund	\$ 1,165,588

Restricted by externally imposed constraints for grants and other programs:

Federal Fund SD Works	\$ 5,756,351
Federal Funds Others	\$ 534,613
GOED Special Revenue Fund	\$ 520,592
SDRC Indemnification Fund One account (reported in General Fund Appropriation)	\$ 989,946
SDRC Expense Fund account (reported in General Fund Appropriation)	\$ 28,240

Assigned for economic development purposes:

General Fund Appropriations	\$ 500,000
Economic Development Partnership Fund	\$ 1,050,000
Local Infrastructure Improvement Grant Fund	\$ 1,750,000

The State does not use separate funds to segregate restricted, committed and assigned resources. It instead uses the accounting structure to track sources of resources. The State's policy is that assigned amounts are spent first, then committed, restricted and finally unassigned when expenditures are incurred for purposes of which multiple resources are available within the accounting structure.

2. CASH AND DEPOSITS

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501.

Custodial Credit Risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. The GOED does not have a deposit policy for custodial credit risk. The SDRC Indemnification Fund One account and the SDRC Expense Fund account (as reported in the General Fund Appropriation) are held in the name of the SDRC Inc. under the contract discussed in Note 1.B. above and at June 30, 2013 the SDRC Indemnification Fund One account was exposed to custodial credit risk for the amount exceeding the FDIC insurance.

3. RELATED PARTY TRANSACTIONS

The South Dakota Development Corporation (SDDC) is a South Dakota non-profit corporation and a Certified Development Company created for the purpose of administering the U.S. Small Business Administration's (SBA) 503/504 loan programs and the Microloan Program. The Microloan Program was formed as a partnership between Citibank (South Dakota) N.A., the SDDC and the GOED. Citibank is no longer a part of this partnership. GOED has agreed to provide certain staff services and related support of the SBA 504 loans and Microloan Program loans made by SDDC. GOED provides these services out of GOED funds. GOED grants are provided to SDDC to be used for loans to businesses in South Dakota. The purpose of the SBA's 503/504 loan program and the Microloan program, is to help facilitate economic development and the creation of jobs in South Dakota. These loans are used to assist companies either operating in the state or moving to the State. Businesses use the loan funds to expand their operations, improve their facilities, or set up operations in South Dakota. The 503/504 loans awarded during FY2010, through FY2013 were \$9,462,046, \$4,698,597, \$5,177,000 and \$4,698,000, respectively. Funding for these loans came from the SBA. In addition, the SDDC has loaned out \$500,911 for the Microloan Program loans as of June 30, 2013. The GOED has disbursed grants in the amounts of \$4,366,667, \$5,300,000, \$2,700,000, and \$2,060,000 from the Employer's Investment in South Dakota's Future Fund to the SDDC in FY2010 through FY2013, respectively. In addition, the GOED assigned a loan made in the amount of \$1,215,000 from the Employer's Investment in South Dakota's Future Fund to the SDDC in FY2010. The SDDC returned \$1,500,000 in unused grants to the Employer's Investment in South Dakota's Future Fund in FY12 and \$50,000 in FY2013. In FY2012 the GOED made a \$2,000,000 grant to the SDDC to be used by the SDDC to provide assistance to the Northern Beef Packers, L.P. in the form of a loan. Upon repayment of the loan to SDDC, which has occurred, the grant stipulates that the SDDC shall hold the proceeds in trust for GOED to be utilized for future economic development purposes as directed by GOED.

4. RETIREMENT PLAN

The GOED participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The GOED's contributions to the SDRS for the fiscal years ended June 30, 2013, 2012, 2011 and 2010 were \$99,114, \$96,479, \$93,664 and \$93,597, respectively, equal to the required contributions each year.

5. SELF-INSURANCE

A. Workers' Compensation Benefits and Unemployment Insurance

Various funds accumulate assets to cover risks that the State incurs in its normal operations. The State (rather than an insurance carrier) assumes the risk associated with claims of state employees for unemployment compensation benefits. Premiums charged to state funds to cover the costs of claims servicing and claims payments are based on a percentage of wages paid to state employees.

B. Health and Life Insurance

The State (rather than an insurance carrier) assumes substantially all risk associated with claims of covered public employees for health insurance and life insurance benefits (an insurance carrier, however, provides claims administration services for health insurance). Premiums are charged to state funds for all covered employees.

C. Public Entity Pool for Liability

The State and its agencies are covered through a Public Entity Pool for Liability Fund (PEPL), which is reported in the States CAFR as an internal service fund. The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The PEPL fund allocates the cost of providing claims payment by charging a premium to each fund and agency based on the number of automobiles titled to each agency (for automobile liability) or approved full-time employees (for general tort liability).

D. Risk Management

The State is commercially insured for boiler insurance, aircraft, and crime bonds through outside insurance companies. Entities participating in this insurance coverage are only billed for premiums applicable to their coverage needs. The State is uninsured for property losses with the exception of all bonded buildings, all higher education facilities and buildings and certain other revenue-producing buildings that are covered through outside insurance companies.

A contract between GOED (formerly the Department of Tourism and State Development) and SDRC dated December 22, 2009 was created to stimulate the economy through job creation and capital investment by foreign investors in order to obtain a green card through the United States Citizenship and Immigration Service (USCIS). An indemnification account was created through the contract with SDRC to protect against and cover legal or litigation cost for itself and the State of South Dakota. The balance in the EB-5 Indemnification Fund One account (as reported in the General Fund Appropriation) at June 30, 2013 was \$989,946. Additionally, the contract required the SDRC Inc. to purchase professional liability insurance with the GOED named as an insured party and to fund a separate indemnification fund, named Indemnification Fund Two. The limits of the liability coverage are to be not less than \$3,000,000 per occurrence and are to cover SDRC's obligations to indemnify the GOED.

6. SUBSEQUENT EVENTS

Notice was given by GOED on September 19, 2013 terminating the Amended and Restated Consulting Contract between SDRC and GOED (formerly the Department of Tourism and State Development) dated December 22, 2009, for cause, effective immediately. A demand was made, pursuant to paragraph 8 of the Contract, to turn over to GOED, payable to the South Dakota State Treasurer, the balance of the Expense Fund (as defined and described in the Contract). On January 30, 2014 the balance was deposited into the State General Fund.

SUPPLEMENTAL INFORMATION

This section is not required information, but is included to breakdown the Federal Funds included in these special purpose cash basis financial statements. The following individual schedules include:

Balance Sheet – Federal Funds – Cash Basis, June 30, 2013

Statement of Revenues, Expenditures and Changes in Fund Balances – Federal Funds – Cash Basis

For fiscal year ended June 30, 2013

For fiscal year ended June 30, 2012

For fiscal year ended June 30, 2011

For fiscal year ended June 30, 2010

Notes to Supplementary Information – Description of Federal Funds

STATE OF SOUTH DAKOTA
 Governor's Office of Economic Development
 Balance Sheet - Federal Funds - Cash Basis
 For the Fiscal Year Ended June 30, 2013

	Community Development Block Grant (CDBG)	SD Works	State Energy Program Grants	SBA Federal and State Technology Grant	Community Economic Diversification Grant	Promotion of the Arts Partnership Agreements	Total
Assets:							
Cash Pooled with State Treasurer	\$	\$ 5,756,351	\$ 554,714	\$ (20,101)	\$	\$	\$ 6,290,964
Total Assets	<u>\$ 0</u>	<u>\$ 5,756,351</u>	<u>\$ 554,714</u>	<u>\$ (20,101)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,290,964</u>
Fund Balances:							
Restricted	\$	\$ 5,756,351	\$ 554,714	\$ (20,101)	\$	\$	\$ 6,290,964
Total Fund Balances	<u>\$ 0</u>	<u>\$ 5,756,351</u>	<u>\$ 554,714</u>	<u>\$ (20,101)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,290,964</u>

STATE OF SOUTH DAKOTA
 Governor's Office of Economic Development
 Statement of Revenues, Expenditures and
 Changes in Fund Balances - Federal Funds - Cash Basis
 For the Fiscal Year Ended June 30, 2013

	Community Development Block Grant (CDBG)	SD Works	State Energy Program Grants	SBA Federal and State Technology Grant	Community Economic Diversification Grant	Promotion of the Arts Partnership Agreements	Total
Revenue:							
Use of Money and Property Sales and Services	\$	\$ 130,284 700	\$	\$	\$	\$	\$ 130,284 700
Administering Programs	6,227,321	4,345,555	2,406,568	96,451	6,177		13,082,072
Loan Repayments		880,567	396,248				1,276,815
Total Revenue	6,227,321	5,357,106	2,802,816	96,451	6,177	0	14,489,871
Expenditures:							
Personal Services and Benefits	232,971	21,841	48,112				302,924
Travel	1,234	8,237	3,407				12,878
Contractual Services	14,263	29,910	9,283	6,855	1		60,312
Supplies and Materials	273	1,197		287			1,757
Grants and Subsidies	5,977,893	2,243,195	2,345,681	84,270	6,177		10,657,216
Capital Outlay	570		85				655
Total Expenditures	6,227,204	2,304,380	2,406,568	91,412	6,178	0	11,035,742
Excess of Revenues Over (Under) Expenditures	117	3,052,726	396,248	5,039	(1)	0	3,454,129
Other Financing Sources (Uses):							
Transfers In							0
Transfers Out							0
Net Other Financing Sources (Uses)	0	0	0	0	0	0	0
Net Change in Fund Balances	117	3,052,726	396,248	5,039	(1)	0	3,454,129
Fund Balances at Beginning of Year	(117)	2,703,625	158,466	(25,140)	1		2,836,835
Fund Balances at End of Year	\$ 0	\$ 5,756,351	\$ 554,714	\$ (20,101)	\$ 0	\$ 0	\$ 6,290,964

STATE OF SOUTH DAKOTA
 Governor's Office of Economic Development
 Statement of Revenues, Expenditures and
 Changes in Fund Balances - Federal Funds - Cash Basis
 For the Fiscal Year Ended June 30, 2012

	Community Development Block Grant (CDBG)	SD Works	State Energy Program Grants	SBA Federal and State Technology Grant	Community Economic Diversification Grant	Promotion of the Arts Partnership Agreements	Total
Revenue:							
Use of Money and Property	\$	\$ 9,751	\$	\$	\$	\$	\$ 9,751
Sales and Services		300					300
Administering Programs	4,848,003	4,345,556	4,919,402	46,901	239,648	96,863	14,496,373
Loan Repayments			151,040				151,040
Total Revenue	<u>4,848,003</u>	<u>4,355,607</u>	<u>5,070,442</u>	<u>46,901</u>	<u>239,648</u>	<u>96,863</u>	<u>14,657,464</u>
Expenditures:							
Personal Services and Benefits	213,373	4,979	93,605				311,957
Travel	1,262	3,079	2,232				6,573
Contractual Services	14,941	12,786	28,215	3,976			59,918
Supplies and Materials	152	1,138		436			1,726
Grants and Subsidies	4,617,596	1,630,000	4,785,948	50,182	233,426		11,317,152
Capital Outlay	796						796
Total Expenditures	<u>4,848,120</u>	<u>1,651,982</u>	<u>4,910,000</u>	<u>54,594</u>	<u>233,426</u>	<u>0</u>	<u>11,698,122</u>
Excess of Revenues Over (Under)							
Expenditures	(117)	2,703,625	160,442	(7,693)	6,222	96,863	2,959,342
Other Financing Sources (Uses):							
Transfers In							0
Transfers Out				(1,052)			(1,052)
Net Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,052)</u>	<u>0</u>	<u>0</u>	<u>(1,052)</u>
Net Change in Fund Balances	<u>(117)</u>	<u>2,703,625</u>	<u>160,442</u>	<u>(8,745)</u>	<u>6,222</u>	<u>96,863</u>	<u>2,958,290</u>
Fund Balances at Beginning of Year			(1,976)	(16,395)	(6,221)	(96,863)	(121,455)
Fund Balances at End of Year	<u>\$ (117)</u>	<u>\$ 2,703,625</u>	<u>\$ 158,466</u>	<u>\$ (25,140)</u>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 2,836,835</u>

STATE OF SOUTH DAKOTA
 Governor's Office of Economic Development
 Statement of Revenues, Expenditures and
 Changes in Fund Balances - Federal Funds - Cash Basis
 For the Fiscal Year Ended June 30, 2011

	Community Development Block Grant (CDBG)	SD Works	State Energy Program Grants	SBA Federal and State Technology Grant	Community Economic Diversification Grant	Promotion of the Arts Partnership Agreements	Total
Revenue:							
Administering Programs	\$ 11,995,069	\$	\$ 7,094,548	\$ 19,323	\$ 520,821	\$ 33,083	\$ 19,662,844
Total Revenue	<u>11,995,069</u>	<u>0</u>	<u>7,094,548</u>	<u>19,323</u>	<u>520,821</u>	<u>33,083</u>	<u>19,662,844</u>
Expenditures:							
Personal Services and Benefits	212,433		101,689				314,122
Travel	4,406		7,027				11,433
Contractual Services	29,823		9,616	4,260			43,699
Supplies and Materials	379		96				475
Grants and Subsidies	11,748,027		6,985,522	31,458	353,548	129,946	19,248,501
Total Expenditures	<u>11,995,068</u>	<u>0</u>	<u>7,103,950</u>	<u>35,718</u>	<u>353,548</u>	<u>129,946</u>	<u>19,618,230</u>
Excess of Revenues Over (Under)							
Expenditures	1	0	(9,402)	(16,395)	167,273	(96,863)	44,614
Other Financing Sources (Uses);							
Transfers In							0
Transfers Out							0
Net Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>1</u>	<u>0</u>	<u>(9,402)</u>	<u>(16,395)</u>	<u>167,273</u>	<u>(96,863)</u>	<u>44,614</u>
Fund Balances at Beginning of Year	<u>(1)</u>		<u>7,426</u>		<u>(173,494)</u>		<u>(166,069)</u>
Fund Balances at End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (1,976)</u>	<u>\$ (16,395)</u>	<u>\$ (6,221)</u>	<u>\$ (96,863)</u>	<u>\$ (121,455)</u>

STATE OF SOUTH DAKOTA
 Governor's Office of Economic Development
 Statement of Revenues, Expenditures and
 Changes in Fund Balances - Federal Funds - Cash Basis
 For the Fiscal Year Ended June 30, 2010

	Community Development Block Grant (CDBG)	SD Works	State Energy Program Grants	SBA Federal and State Technology Grant	Community Economic Diversification Grant	Promotion of the Arts Partnership Agreements	Total
Revenue:							
Administering Programs	\$ 10,819,330	\$	\$ 2,264,320	\$	\$ 102,616	\$ 90,000	\$ 13,276,266
Total Revenue	<u>10,819,330</u>	<u>0</u>	<u>2,264,320</u>	<u>0</u>	<u>102,616</u>	<u>90,000</u>	<u>13,276,266</u>
Expenditures:							
Personal Services and Benefits	214,942		93,636				308,578
Travel	4,255		1,872				6,127
Contractual Services	17,875		8,368		114,443		140,686
Supplies and Materials	373		2,926				3,299
Grants and Subsidies	10,532,221		2,155,283		173,496	90,000	12,951,000
Total Expenditures	<u>10,769,666</u>	<u>0</u>	<u>2,262,085</u>	<u>0</u>	<u>287,939</u>	<u>90,000</u>	<u>13,409,690</u>
Excess of Revenues Over (Under)							
Expenditures	49,664	0	2,235	0	(185,323)	0	(133,424)
Other Financing Sources (Uses);							
Transfers In							0
Transfers Out							0
Net Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>49,664</u>	<u>0</u>	<u>2,235</u>	<u>0</u>	<u>(185,323)</u>	<u>0</u>	<u>(133,424)</u>
Fund Balances at Beginning of Year	<u>(49,665)</u>		<u>5,191</u>		<u>11,829</u>		<u>(32,645)</u>
Fund Balances at End of Year	<u>\$ (1)</u>	<u>\$ 0</u>	<u>\$ 7,426</u>	<u>\$ 0</u>	<u>\$ (173,494)</u>	<u>\$ 0</u>	<u>\$ (166,069)</u>

SUPPLEMENTAL INFORMATION

Notes to supplementary information – Description of Federal Funds

Community Development Block Grant (CDBG) Federal Grant

The primary objective of this program is the development of viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate-income. The grant is funded through an annual formula allocation from the U.S. Department of Housing and Urban development.

SD Works Federal Grant

This fund offers business and commercial loans to entities needing working capital (such as startup costs, payroll, and inventory needs), interim construction needs on new buildings, and equipment needs for a term from one to five years. The loan structure should be 80 percent from lead bank and 20 percent from the WORKS program. This grant is funded through the U.S. Treasury.

State Energy Program Federal Grants

This fund provides financial and technical assistance to State governments to create and implement a variety of energy efficiency and conservation projects in order to provide leadership to maximize the benefits of energy efficiency and renewable energy through communications and outreach activities, technology deployment, and accessing new partnerships and resources across the geographic panorama of the United States and its territories. The program's objectives are:

- * To reduce fossil fuel emissions created as a result of activities within the jurisdictions of eligible entities;
- * To reduce the total energy use of the eligible entities; and
- * To improve energy efficiency in the transportation, building, and other sectors.

These grants are funded by the Department of Energy.

Federal and State Technology Partnership Program Grant

This grant is technology based and promotes research and development by small business concerns through areas such as university research projects transferred to technology-based small businesses, make grants or loans to companies to pay a portion of all the cost of developing Small Business Innovation Research, to establish or operate a mentoring network within the Federal and State Technology Partnership program. This grant is funded by the Federal and State Technology Partnership Program.

Community Economic Diversification Federal Grant

The objective of this grant is to assist State and local governments in preparing and adopting a planning study to mitigate or prevent incompatible civilian land use/activity that is likely to impair the continued operational utility of a Department of Defense military installation. Grantees and participating governments are expected to adopt and implement the study recommendations. This grant is funded by the Department of Defense, Office of Economic Adjustment.

Promotion of the Arts Partnership Agreements Federal Grant

This is a matching grant to develop and maintain partnerships with the state and jurisdictional arts agencies and their regional arts organizations. The mission of the National Endowment for the Arts is to support artistic excellence, creativity, and innovation for the benefit of individuals and communities through partnerships with state arts agencies, local leaders, other federal agencies, and the philanthropic sector. This grant is awarded through the National Foundation of the Arts.

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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

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

The Honorable Dennis Daugaard
Governor of South Dakota

and

Pat Costello, Commissioner
Governor's Office of Economic Development

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 governmental funds of the South Dakota Governor's Office of Economic Development, which comprise the balance sheet – cash basis as 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, and the related notes to the financial statements, and have issued our report thereon dated February 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Dakota Governor's Office of Economic Development'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 South Dakota Governor's Office of Economic Development's internal control. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Governor's Office of Economic Development's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying "Current Audit Findings and Recommendations", we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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 "Current Audit Findings and Recommendations" as findings 2013-001 and 2013-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying "Current Audit Findings and Recommendations" as findings 2013-005 and 2013-003 to be significant deficiencies.

Compliance and Other Matters

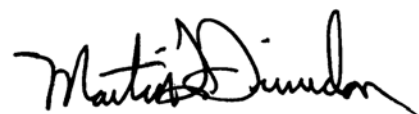
As part of obtaining reasonable assurance about whether the South Dakota Governor's Office of Economic Development's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying "Current Audit Findings and Recommendations" as item 2013-004.

South Dakota Governor's Office of Economic Development's Response to Findings

The South Dakota Governor's Office of Economic Development's responses to the findings identified in our audit are described in the accompanying "Current Audit Findings and Recommendations". The South Dakota Governor's Office of Economic Development's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 entity'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 entity'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.



Martin L. Guindon, CPA
Auditor General

February 12, 2014

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Finding No. 2013-001:

The former Department of Tourism and State Development (DTSD) and the current Governor's Office of Economic Development's (GOED) policies and procedures were inadequate for the monitoring of the contract with the SDRC Inc.

Analysis:

The state of South Dakota was approved as a Regional Center under the Immigrant Investor Pilot Program (EB-5 program) by the U.S. Citizenship and Immigration Services (CIS). As a part of the application process the boundaries and parameters for the industries that qualify under the EB-5 program were established. The Department of Tourism and State Development entered into a contract with the SDRC Inc. (SDRC) on December 22, 2009 which was later amended and restated on June 4, 2010, establishing the SDRC as the administrator of the Regional Center and the EB-5 program. Under the contract, the SDRC was responsible for all aspects of the EB-5 program including preparing requests for project approval from CIS, filing reports and notifications, responding to CIS inquiries, maintaining all records as required by 8 CFR 204.6, and collecting and depositing fees into specified accounts. The SDRC was also required to provide notice of fee payments to the state and copies of books, records and reports that are required to be provided to CIS not less than monthly. The state's responsibility was to approve the projects, to authorize transactions associated with two of the funds created under the contract; Indemnification Fund One and the Expense Fund, and, to approve the disbursements from the Expense Fund.

Three funds were established under the SDRC contract; 1) Expense Fund, 2) Indemnification Fund One, and 3) Indemnification Fund Two. Upon termination of contract or the SDRC, the Expense Fund and Indemnification Fund One are to eventually be paid over to the DTSD and Indemnification Fund Two will be paid over to the shareholders of the SDRC. Fees established under the contract were to be collected and deposited into Indemnification Fund One. Monies were to be swept from Indemnification Fund One to the Expense Fund as directed in writing by the DTSD. Indemnification Fund One was to be used for satisfying the obligations of the SDRC to indemnify the DTSD for items which are not paid by the SDRC's insurance coverage or Indemnification Fund Two and the Expense fund was to be used for paying current and future expenses incurred by the DTSD and others in providing information concerning projects undertaken by SDRC and in promoting and monitoring the EB-5 program.

The former DTSD and the current GOED should have had accountability for Indemnification Fund One and the Expense Fund. At the time fees were paid into Indemnification Fund One, the SDRC was to provide notice of the payment to DTSD and copies of records reasonably acceptable to DTSD verifying the amount collected by SDRC. The following deficiencies were noted:

- Although the SDRC was providing to the DTSD a monthly e-mail containing a report and the balances in the two funds, the report was not sufficient to ascertain that the correct amounts were being collected and deposited and copies of bank statements did not accompany the e-mail to corroborate the balances being reported.
- Documentation was not adequate to determine whether the DTSD or the GOED was receiving the copies of books, records and reports that were required to be provided to the CIS by the SDRC.
- Inadequate internal controls existed over the payment of expenses from the Expense Fund. Five disbursements were made from the Expense Fund totaling \$67,259.97. The invoices were signed by the former Secretary of the DTSD and the DSTD's Administration Director. The invoices identified the expenses as being for meals, lodging and transportation. Other than the information contained in the invoices, there was no supporting documentation retained to evidence that the expenses were incurred, who incurred the expenses, or the purpose of the expenses.
- The DTSD and GOED did not report Indemnification Fund One and the Expense Fund in the State's Comprehensive Annual Financial Reports for FY2010 through FY2012.

As a result, there existed a potential for the loss of assets and two funds were not properly reported in the State's Comprehensive Annual Financial Report.

RECOMMENDATIONS:

1. We recommend GOED improve its policies and procedures to ensure that all contracts are properly monitored.
2. We recommend GOED improve its internal controls to ensure accountability over all funds of the GOED.
3. We recommend GOED properly report all funds for which it has accountability in the State's Comprehensive Annual Financial Report.

Corrective Action Plan:

1. GOED updated its existing loan database to include a follow up reporting system to better track and monitor contracts. This change will allow GOED to populate detailed monthly reports specifying the documentation or reports due on each contract that month.
2. GOED's Internal Control Document has been updated to specify what constitutes acceptable supporting documentation. Additionally, contracts will include the specific documentation required to evidence the fulfillment of the requirements contained therein.
3. Given the third-party origin of the Expense Fund and Indemnification Fund One and the contractual restrictions imposed upon the same, GOED did not report the funds on the State's Comprehensive Annual Financial Report. GOED intended to audit the funds and account for the contributions and distributions if and when the funds were reverted to the State.

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Finding No. 2013-002:

The former Department of Tourism and State Development (DTSD) and the current Governor's Office of Economic Development (GOED) did not have a formal written policy and related procedures addressing ethics and potential conflicts of interest other than what is already provided in the employee handbook.

Analysis:

The purpose of an ethics and conflict of interest policy is to prevent the professional and personal interests of the management and staff of the GOED from influencing the performance of their duties on behalf of the GOED. The DTSD and GOED did not have such written policy and related procedures in place for the period covered by our audit.

On December 2, 2010 Secretary Benda discussed a draft employment contract between Secretary Benda and the SDRC Inc. or a related entity for providing loan monitoring services related to NBP. On December 23, 2010, Secretary Benda amended two Future Fund grant agreements with the South Dakota Development Corporation (SDDC) for the purpose of making loans to Northern Beef Packers LP (NBP) which increased the aggregate total of the two agreements by \$600,000 (from \$1,450,000 to \$2,050,000). On February 1, 2011, \$1,200,000 of these funds was disbursed to NBP by the SDDC. \$850,000 was returned to the Future Fund.

Secretary Benda's employment with the State of South Dakota ended on January 8, 2011. On January 13, 2011, subsequent to his employment by state government, Mr. Benda was notified by e-mail that he could pick up a check written by the State of South Dakota to NBP for payment of a \$1,000,000 grant to NBP for reimbursement of construction costs. This check was deposited by NBP on January 26, 2011.

The GOED should have had a policy in place that would have required Secretary Benda to disclose his future employment plans and remove himself from involvement in subsequent matters relating to NBP. The lack of a formal written policy and related procedures by DTSD and GOED regarding ethics and conflicts of interest increases the risk that the personal interests of employees may compromise the public interests of the GOED.

RECOMMENDATION:

We recommend that in addition to existing state policy, GOED implement a formal written ethics and conflict of interest policy and related procedures document.

Corrective Action Plan:

GOED implemented the attached Policy on Ethics and Conflicts of Interest.

**South Dakota
Governor's Office of Economic Development**

POLICY ON ETHICS AND CONFLICTS OF INTEREST

A. General Policy Statement. All GOED staff shall act ethically, including the avoidance of conflicts of interest, and exhibit good character.

B. Conflicts of Interest. A person has a conflict of interest if the person has a direct personal or financial interest in the matter under consideration. No GOED staff may participate in, vote on, or be involved in a matter in which that individual has a conflict of interest.

C. Ethical Behavior. All GOED staff must act ethically and exhibit good moral character. The following are examples of unethical behavior; GOED staff may not:

(1) Self-deal;

(2) Own an equity interest in a business that has received or is applying to receive financing from GOED or any of the boards or entities for which GOED provides administration or staff services. This prohibition includes equity ownership at any time during the term of the loan or within 6 months prior to the loan application;

(3) Knowingly misrepresent or make a false statement to GOED;

(4) Engage in conduct reflecting a lack of business integrity or honesty; or

(5) Fail to disclose a conflict of interest or circumstances which give the appearance of a conflict of interest.

D. Enforcement. Authority to enforce the terms of this policy is vested in the Commissioner of the Governor's Office of Economic Development, to include without limitation, the ability to terminate an individual for violating the terms hereof in the manner provided for by applicable law.



J. Pat Costello
Commissioner
Governors Office of Economic
Development

The undersigned employee of the Governor's Office of Economic Development acknowledges, understands and agrees to comply with the foregoing Policy on Ethics and Conflict of Interest.

Dated this ___ day of _____, 20__.

Employee Signature: _____

Employee Print Name: _____

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Finding No. 2013-003:

Internal controls were inadequate over the processing of travel vouchers resulting in duplicate and unsupported travel payments.

Analysis:

We tested all travel vouchers submitted during the period of FY2010 through FY2013 by the former Secretary of the Department of Tourism and State Development as a result of duplicate payments being identified to us by management. We found that three duplicate payments were made for airline tickets totaling \$5,559.80. The duplicate payments occurred on vouchers paid on 1/6/10 and 3/18/10 for two airline tickets in the amounts of \$982.90 and \$3,740.60, and vouchers paid on 3/18/10 and 4/29/10 for one airline ticket in the amount of \$836.30.

We also noted six invoices included for reimbursement in the travel vouchers that were identified as having been for translation services. These services involved having legal documents and seminar documents associated with the EB-5 program translated into other languages. All six invoices indicated that the payment on the invoice was to be made in cash. Five of the payments totaling \$13,500.00 were associated with invoices from an individual that had handwritten on them "only invoice available" and the instruction on the invoice was to "pay by cash when next trip". One invoice for \$1,200.00 was on the letterhead of a Philippine hotel and had handwritten on it four names, "USD Cash \$1,200.00", "translation and interpretation", and "only invoice available". No receipts were included with the travel vouchers to support that payment was tendered for the services provided on the invoices. As a result, \$14,700.00 in expenditures paid from the General Fund was not properly supported.

RECOMMENDATION:

We recommend internal controls be strengthened to ensure that proper payments are made from state funds.

Corrective Action Plan:

GOED updated its internal reimbursement policy to require two individuals to review reimbursement requests and supporting documentation. Requiring duplicate review provides an additional control to safeguard the integrity of the reimbursement process.

See attached response from the State Auditor dated January 22, 2014.



Office of the State Auditor

Steven J. Barnett, State Auditor

Jason Lutz, Deputy State Auditor

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January 22, 2014

Pat Costello, Commissioner
Governor's Office of Economic Development
711 East Wells Avenue
Pierre, SD 57501

Dear Commissioner Costello:

Thank you for the opportunity to discuss the findings of Eide Bailly's review of internal control policies and procedures at the Governor's Office of Economic Development (GOED) as it pertains to the employee reimbursement process. The concerns expressed by Eide Bailly are clearly valid, and any qualified recommendations and input that can lead to a more secure expense process are certainly worthwhile.

I wanted to use this opportunity to provide information relating to administrative rules currently in place that guide our office in the employee reimbursement process. The Travel Warrant Disbursements (3:05:03) chapter in the Administrative Rules of South Dakota help our office deter the possibility of reimbursing an employee for an expense that was directly billed to the agency by requiring that actual receipts and proof of payment be presented by the employee. In particular, please note the three rules below:

3:05:03:01. Lodging receipt required. An employee traveling on state business who is away from his home station for one or more nights, shall have a bona fide lodging receipt. Hotel or motel receipts shall be the original receipt or that receipt which each specific hotel or motel regularly gives to a customer. Such receipts shall indicate that they are paid. When the receipt is not a regular folio type, such receipt shall carry the signature of the hotel or motel owner or clerk.

Source: SL 1975, ch 16, § 1; transferred from § 5:01:03:05, 2 SDR 23, effective September 29, 1975; 11 SDR 51, effective October 18, 1984.

General Authority: SDCL 3-9-8, 4-9-1.1.

Law Implemented: SDCL 3-9-2, 3-9-8, 4-9-1.1.

3:05:03:02. Conference, seminar, or workshop attendance. In addition to other requirements for filing travel vouchers, those persons attending conferences, seminars, or workshops shall attach to their voucher:

- (1) A copy of the program or official letter which give the dates and location of the conference, seminar or workshop;
- (2) A receipt for any registration fee paid.

Source: SL 1975, ch 16, § 1; transferred from § 5:01:03:17, 2 SDR 23, effective September 29, 1975.

General Authority: SDCL 4-9-1.1.

Law Implemented: SDCL 3-9-8, 4-9-1.1.

3:05:03:10. Receipts of expenditures required. Original copies of receipts of expenditures in excess of one dollar except in cases of taxi fares under five dollars, including lodging but excluding meals, shall be submitted in support of claims for reimbursements. When the vendor requires the original copy for his files, the second copy shall be accepted by the auditor.

Source: SL 1975, ch 16, § 1; transferred from § 5:01:03:02, 2 SDR 23, effective September 29, 1975; 11 SDR 51, effective October 18, 1984.

General Authority: SDCL 4-9-1.1.

Law Implemented: SDCL 3-9-8.

Another area of concern identified deals with a potential time delay between the dates an expense is incurred by an employee and when the voucher is ultimately submitted. Our office is in the process of finalizing language for an Administrative Rule proposal which would impose a 60-day limit for an employee to submit a voucher after the last day of their travel. The rule would then impose additional guidelines that must be met if the employee fails to meet the time limit.

Again, I'd like to thank Eide Bailly for their input and recommendations for improvement in these processes. We look forward to continue working toward rules and controls that provide additional safeguards to the State in the reimbursement process, and commit to working with GOED and other state agencies in accomplishing those goals.

Kindest regards,

Steven J. Barnett
South Dakota State Auditor

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Finding No. 2013-004:

The former Department of Tourism and State Development and the current Governor's Office of Economic Development (GOED) did not have adequate documentation of the follow-up activities associated with Future Fund grants.

Analysis:

SDCL 61-5-29.1 states:

There is hereby created in the state treasury a special revenue fund to be known as the employer's investment in South Dakota's future fund. Such fund shall be used for purposes related to research and economic development for the state.

The GOED provides workforce development and technical assistance grants from the Future Fund to organizations in the state to promote economic development. We selected a sample of forty-eight grants issued between July 1, 2009 and June 30, 2013 to test for documentation relating to follow-up activities associated with the grants. The following deficiencies were noted:

1. We noted three grants were made to the South Dakota Development Corporation (SDDC) for the purposes of making loans to businesses. The loans were not made to the businesses and the money was ultimately returned to the Future Fund. For these three grants the money was returned to the Future Fund twenty-two months later, fourteen months later and thirteen months later. We noted one additional grant that was not part of our sample, which was returned to the Future Fund thirty-one months later. The money was not returned to the Future Fund on a timely basis resulting in lost interest income in the Future Fund.
2. Eleven grants tested were made to the SDDC, totaling \$8,491,000, for the purposes of making loans or providing other forms of financial assistance to companies. Of the eleven grants to SDDC, four letters of agreement called for copies of the loan documents to be provided to the GOED. These documents were not in the grant files. One letter of agreement called for four monthly activity progress reports to be provided to the GOED. These progress reports were not in the grant file. One letter of agreement called for a final report to be provided to the GOED. This final report was not in the grant file. One letter of agreement called for copies of the term sheet to be provided to the GOED. The term sheet was not in the grant file. Of the eleven grants to SDDC, ten letters of agreement were silent as to what happened to the funds after the loan or financial assistance was repaid to the SDDC.

3. A workforce development grant for \$47,000 was given to a company with four plants in the U.S. and Canada. One of those four plants is in South Dakota. There was inadequate documentation in the grant file to show the grant was used for training associated with the employees of the South Dakota plant.
4. We reviewed the grant files to determine if there had been follow-up with the grantee after the grant was made. For eighteen of the forty-eight grants tested, totaling \$10,396,406, there was no documentation in the grant files that there had been follow-up after the grant was made.

As a result, there was not adequate documentation of the follow-up activities associated with the Future Fund grant program.

RECOMMENDATION:

We recommend that policies be implemented to ensure that the follow-up activities are adequately documented.

Corrective Action Plan:

1. GOED updated its existing loan database to include a follow up reporting system to better track and monitor grant agreements. This change will allow GOED to populate detailed monthly reports specifying the documentation or reports due on each grant agreement that month.
2. GOED's Internal Control Document has been updated to specify what constitutes acceptable supporting documentation. Additionally, grant agreements will include the specific documentation required to evidence the fulfillment of the requirements contained therein.

GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Finding No. 2013-005:

Internal controls were inadequate over the cash receipting process.

Analysis:

SDCL 4-3-4.2 states:

All money, emoluments, and perquisites other than personal salary received by any officer or employee of this state shall be remitted to the state treasury by the end of the working day following the day money is received or as specified by the state treasurer. The state treasurer shall establish rules and regulations to assure accountability.

Administrative Rule 6:03:01:01 states:

Funds destined for the state treasurer's office may be held for more than one working day if the amount to be remitted is under \$500. However, all funds held by an agency shall be remitted every Thursday.

Miscellaneous revenues, typically in the form of checks, are received in the mail by the Governor's Office of Economic Development (GOED). The mail is opened by a secretary and the checks are distributed to GOED personnel for further processing. A listing of the checks is not made at the time the mail is opened. As a result, internal controls were not adequate to ensure that checks are returned for deposit and deposits are made intact and on a timely basis. Our testing also identified that receipts of over \$500 were not deposited within one day as required by SDCL 4-3-4.2.

RECOMMENDATION:

We recommend internal controls be strengthened to ensure that receipts are deposited timely and intact.

Corrective Action Plan:

GOED updated its internal controls to require the receptionist opening mail to record the check/cash receipts in the incoming check/cash log, which is printed and signed daily. The receptionist then delivers the receipts to the accounting assistant, who is responsible for endorsing and depositing the receipts in compliance with SDCL 4-3-4.2.