



**UNEMPLOYMENT INSURANCE FUND OF THE
SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2024

**SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION
UNEMPLOYMENT INSURANCE FUND**

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Independent Auditor's Report

To the Honorable Kristi Noem
Governor of South Dakota
and
The South Dakota Department of Labor and Regulation
Pierre, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Unemployment Insurance Fund of the South Dakota Department of Labor and Regulation (the Fund), an enterprise fund of the State of South Dakota, as of and for the year ended June 30, 2024, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2024, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the State of South Dakota, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Unemployment Insurance Fund of the South Dakota Department of Labor and Regulation are intended to present the financial position, the changes in financial position and cash flows of only that portion of the South Dakota Department of Labor and Regulation and the State of South Dakota that is attributable to the transactions of the Unemployment Insurance Fund of the South Dakota Department of Labor and Regulation. They 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, 2024, and the changes in their financial position or, where applicable, their cash flows for the year 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2024, on our consideration of the Fund of the State of South Dakota'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 solely 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 the effectiveness of the Fund of the State of South Dakota's 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 of the State of South Dakota's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
October 8, 2024

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

UNEMPLOYMENT INSURANCE FUND

JUNE 30, 2024

The following is a discussion and analysis of South Dakota's Unemployment Insurance Trust Fund's financial performance and position for the fiscal year ending June 30, 2024.

The South Dakota Reemployment Assistance (RA) division experienced a slight increase in activity in the fiscal year spanning July 1, 2023, through June 30, 2024. During this time, the number of weekly benefit payments increased from 56,505 in FY2023 to 66,157 in FY2024. Also, the average number of weekly payments increased from 13.4 in FY2023 to 14.0 in FY2024. The average weekly payment also increased from \$425 in FY2023 to \$447 in FY2024. As a result, the benefits paid increased from \$28,630,885 in FY2023 to \$31,834,111 in FY2024.

House Bill 1011 passed during the 2023 Legislative Session established a lower tax table for employer contributions to the Unemployment Insurance Trust Fund. Calendar year 2024 is the first year at these new rates. Fiscal year 2024 includes a portion of taxes collected at these new rates. The taxes paid by employers into the Trust Fund decreased from \$43,304,998 in FY2023 to \$25,926,130 in FY2024, mostly attributed to the lower tax rates.

Even with increased benefit payments and reduced tax revenue, the Unemployment Insurance Trust Fund increased its net position from \$219.5 million as of June 30, 2023, to \$220.6 million on June 30, 2024. The \$1.1 million increase in net position was due to pooled investment income of \$5.7 million exceeding the operating loss of \$4.6 million.

Contributing to the change in net position, the Trust Fund's operating income (operating revenues less operating expenses) decreased by \$17.3 million. This is predominantly a result of an 11.2% increase in benefit payments and 40.1% decrease in employer contributions. The decrease in operating income was tempered by a small reduction in federal assistance payments from \$1.5 million in FY2023 to \$1.3 million in FY2024.

Nonoperating revenues increased by \$2.3 million from fiscal year 2023. In addition, investment earnings also increased by \$2.3 million from the prior fiscal year.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

**STATEMENT OF NET POSITION
UNEMPLOYMENT INSURANCE FUND
JUNE 30, 2024**

Assets

Current Assets

Cash and Cash Equivalents (Note 2)	\$ 212,360,116
Receivables, Net of Allowance for Doubtful Accounts of \$2,974,424	5,154,807
Receivable from Other Governments	87,236
Receivable from Other State Funds (Note 3)	73,360
Total Current Assets	217,675,519

Non-Current Assets

Receivables, Net of Allowance for Doubtful Accounts of \$14,455,180	3,516,979
Total Non-Current Assets	3,516,979

Total Assets	\$ 221,192,498
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Liabilities and Net Position

Current Liabilities

Due to Other Governments	\$ 54,724
Benefits Payable to Claimants	357,474
Unearned Funds for Reimbursing Employers	115,214
Payable to Futures Fund (Note 3)	4,464
Payable to Administrative Fund (Note 3)	74
Payable to Employment Security Contingency Fund (Note 3)	84,796
Total Current Liabilities	616,746

Commitments and Contingencies (Note 4)

Net Position

Restricted	220,575,752
Total Liabilities and Net Position	\$ 221,192,498

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, 2024**

Operating Revenues	
Employer Contributions	\$ 25,926,130
Federal Assistance Payments	1,284,478
Total Operating Revenues	27,210,608
Operating Expenses	
Unemployment Insurance Benefits	31,834,111
Total Operating Expenses	31,834,111
Operating Loss	(4,623,503)
Non-Operating Revenue	
Pooled Investment Income	5,716,283
Interest and Penalties on Contributions and Overpayments	1,018,290
Total Non-Operating Revenue	6,734,573
Income Before Transfers	2,111,070
Transfers	
Transfers To Other State Funds (Note 3)	(1,006,480)
Net Transfers	(1,006,480)
Change in Net Position	1,104,590
Total Net Position -- June 30, 2023	219,471,162
Total Net Position -- June 30, 2024	\$ 220,575,752

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, 2024**

Cash Flows from (used for) Operating Activities

Receipts from Employers	\$ 32,230,693
Receipts from Other Governments	919,207
Payments for Benefits	(31,524,068)
Net Cash Flows from Operating Activities	1,625,832

Cash Flows used for Non-Capital Financing Activities

Investment and Administrative Fees Collected not yet Transferred to Other State Funds	(10,892)
Transfer to Other State Funds	(1,022,863)
Net Cash Flows used for Non-Capital Financing Activities	(1,033,755)

Cash Flows from Investing Activities

Cash Received for Pooled Investment Income	5,716,283
Cash Received from Interest and Penalties on Contributions and Overpayments	1,018,290
Net Cash Flows from Investing Activities	6,734,573

Net Increase in Cash During the Year **7,326,650**

Cash – Beginning of Year 205,033,466

Cash – End of Year **\$ 212,360,116**

Reconciliation of Operating Loss to Net Cash Flows from Operating Activities:

Operating Loss	\$ (4,623,503)
Change in Assets and Liabilities:	
Receivables Net of Doubtful Accounts	6,331,762
Receivables from/Amounts Due to Other Governments	(365,271)
Receivables from Other State Funds	(27,199)
Benefits Payable to Claimants	310,043
Net Cash Flows from Operating Activities	\$ 1,625,832

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, 2024

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 State of South Dakota or 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 of the State of South Dakota 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 to be deposited with the U.S. Department of Treasury as required by SDCL 61-4-5.

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. Measurement Focus and Basis of Accounting

The financial statements of the Fund have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting.

Proprietary funds are presented using the economic resources measurement focus, applied on the accrual basis of accounting. Revenues from unemployment taxes from employers are recognized in the period to which the taxes relate and are earned. Revenues from Federal Unemployment Programs are recognized when applicable benefit payments are made under such programs. Coronavirus Relief Fund revenues are recognized when applicable qualifying expenditures have been made and claimed under the grant. Expenditures are generally recognized when the related fund liability is incurred. Unearned funds for reimbursing employers represent advanced funds held by the Fund from the Federal government as part of a pandemic program for the benefit of qualifying reimbursing employers that have not yet been earned.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) UNEMPLOYMENT INSURANCE FUND JUNE 30, 2024

(1) Summary of Significant Accounting Policies (Continued)

e. Receivables and Payables

Receivables represent payments due from employers, the federal government, and claimants for benefit overpayments. The Fund expects all receivables to be collected within one year. Appropriate allowances for estimated uncollectible amounts have been established.

Benefits payables represent benefits payable to the claimants either certified as of June 30, 2024, or initially filed as of June 30, 2024, and subsequently approved and paid, which are considered payable to claimants at year-end.

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. Equity Classifications and Application of Net Position

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net position – consists of net position with constraint placed on their use either by (a) external groups such as creditors, grantors, contributors, or law and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the Fund's policy to first use any 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 is available. At June 30, 2024, all Fund net position is considered restricted.

(2) Cash and Cash Equivalents

Cash and cash equivalents include all deposits and investments with an original maturity of three months or less for the purposes of the statement of cash flows. 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 Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (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.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

UNEMPLOYMENT INSURANCE FUND

JUNE 30, 2024

(2) Cash and Cash Equivalents (Continued)

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 (c) 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, 2024, the Fund's cash consisted only of checking and pooled U.S. Treasury Unemployment Insurance Funds. U.S. Treasury Unemployment Insurance Funds are amounts on deposit with the Unemployment Trust Fund established by the Social Security Act with the applicable state agency of the Fund as the beneficiary of those funds on deposit. The checking 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, 2024, none of the Fund's deposits were exposed to custodial credit risk.

(3) Activity with Other State Funds (Related Party)

The Receivable from Other State Funds relates to unemployment insurance benefits paid to employees of other state agencies. The Payable to Futures Fund, the Payable to the Administrative Fund, and the Payable to Employment Security Contingency Fund represent interest and fees collected from employers that are required to be remitted to other state funds.

The Transfers to Other State Funds accounts for the interest and fees collected from employers and remitted to other state funds.

(4) Commitments and Contingencies

Benefit payments to unemployed persons (claimants) are recorded when claimants certify their eligibility for benefits. 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 of approved claims as of June 30, 2024, through the end of the maximum benefit eligibility term, other than for amounts certified by the claimants as of June 30, 2024, that have not been paid. The maximum remaining amount of benefits payable to claimants at June 30, 2024, is not determinable; however, the amount would be significant to the Fund's financial statements.

Amounts received or receivable from federal agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time, although the Fund expects such amounts, if any, to be immaterial.



**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 the Honorable Kristi Noem
Governor of South Dakota
and
The South Dakota Department of Labor and Regulation
Pierre, South Dakota

We have audited, 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 (*Government Auditing Standards*), 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, 2024, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated October 8, 2024.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 entity'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 or significant deficiencies may exist that have not been identified.

Report on 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 financial statements. 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*.

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 result 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
October 8, 2024



Independent Auditor's Report on Compliance for the Unemployment Insurance Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards of the Unemployment Insurance Fund's Unemployment Insurance Program

To the Honorable Kristi Noem
Governor of South Dakota
and
The South Dakota Department of Labor and Regulation
Pierre, South Dakota

Report on Compliance

Opinion on the Benefits Payment Portion and Unemployment Insurance Reemployment Portion of the Unemployment Insurance Program

We have audited the Unemployment Insurance Fund of the South Dakota Department of Labor and Regulation's (the Fund) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* applicable to the Fund's benefits payment portion and unemployment insurance reemployment portion of the Unemployment Insurance program for the year ended June 30, 2024.

In our opinion, the Fund complied, in all material respects, with the compliance requirements referred to above that are applicable to the benefits payment portion and unemployment insurance reemployment portion of the Unemployment Insurance program for the year ended June 30, 2024.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of AU-C Section 935: *Compliance Audits*, and the specified provisions of the *OMB Compliance Supplement* for FFAL No. 17.225. Our responsibilities under those standards and the audit requirements of AU-C Section 935: *Compliance Audits* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Fund's compliance with the compliance requirements referred to above.

Other Matter

Our audit was performed to test compliance of the benefits payment portion and the unemployment insurance reemployment programs portion of the Unemployment Insurance program in accordance with the compliance criteria prescribed in the *OMB Compliance Supplement* that we considered to be direct and material pertaining to the benefit payments portion and unemployment insurance reemployment programs portion of the program. Our audit does not purport to, and does not meet, the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform and Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Other Matter – Federal Expenditures Not Included in the Compliance Audit

As discussed in Note A, the schedule of expenditures of federal awards of the Fund's Unemployment Insurance program is intended to present only the expenditures of federal awards of the benefit payments portion and unemployment insurance reemployment programs portion of the Fund's Unemployment Insurance program. The schedule does not purport to, and does not, present fairly the expenditures of federal awards of the State of South Dakota or the South Dakota Department of Labor and Regulation as of and for the year ended June 30, 2024, in conformity with the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform and Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our opinion is not modified with respect to this matter.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Fund's Unemployment Insurance program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Fund's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the audit requirements of AU-C Section 935: *Compliance Audits* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Fund's compliance with the requirements of the Unemployment Insurance program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the audit requirements of AU-C Section 935: *Compliance Audits*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Fund's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Fund's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the audit requirements of AU-C Section 935: *Compliance Audits*, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 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 compliance requirement 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 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the *OMB Compliance Supplement*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards of the Unemployment Insurance Fund's Unemployment Insurance Program

We have audited the financial statements of the Fund as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements. We issued our report thereon dated October 8, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards of the Fund's Unemployment Insurance program is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements.

The 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 schedule of expenditures of federal awards of the Fund's Unemployment Insurance program is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
October 8, 2024

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS OF THE UNEMPLOYMENT INSURANCE
FUND'S UNEMPLOYMENT INSURANCE PROGRAM
FOR THE YEAR ENDED JUNE 30, 2024**

FEDERAL GRANTOR PROGRAM NAME	FEDERAL FINANCIAL ASSISTANCE LISTING	
	<u>NUMBER</u>	<u>EXPENDITURES</u>
U.S. Department of Labor		
Direct Programs:		
State Unemployment Insurance Benefits (Note A)	17.225	\$ 30,535,814
COVID-19 Federal Unemployment Insurance Benefits (Notes A and D)	17.225	2,134
Federal Unemployment Insurance Benefits (Notes A and D)	17.225	1,296,163
Total Federal Financial Assistance		\$ 31,834,111

See notes to the schedule of expenditures of federal awards of the Unemployment Insurance Fund's Unemployment Insurance Program

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS OF THE UNEMPLOYMENT INSURANCE FUND'S UNEMPLOYMENT INSURANCE PROGRAM FOR THE YEAR ENDED JUNE 30, 2024

Note A – Basis of Presentation

The Unemployment Insurance Fund of the South Dakota Department of Labor and Regulation (the Fund) is an enterprise fund of the State of South Dakota. The accompanying schedule of expenditures of federal awards of the Fund's Unemployment Insurance program (the schedule) is intended to present only the expenditures of federal awards of the benefit payments portion and unemployment insurance reemployment programs portion of the Fund's Unemployment Insurance program as directed by the South Dakota Department of Legislative Audit. The schedule does not purport to, and does not, present fairly the expenditures of federal awards of the State of South Dakota or the South Dakota Department of Labor and Regulation as of and for the year ended June 30, 2024, in conformity with the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform and Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). In addition, the schedule presents only a selected portion of the operations of the Fund, it is not intended to, and does not, present the financial position, changes in net position or cash flows of the Fund.

Note B – Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C – Indirect Cost Rate

The Fund has not elected to use the 10% *de minimis* cost rate.

Note D – Federal Unemployment Insurance Benefits

Total expenditures are net of \$1,072,757 of refunds from overpayments of federal unemployment insurance benefits.

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2024**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over Unemployment Insurance Program:	
Material weakness(es) identified?	No
Significant deficiency(s) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for Unemployment Insurance Program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a):	No
Identification of programs audited:	
<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
Unemployment Insurance (UI) (benefit payments portion and unemployment insurance reemployment programs portion only)	17.225

SOUTH DAKOTA DEPARTMENT OF LABOR AND REGULATION

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
UNEMPLOYMENT INSURANCE FUND
FOR THE YEAR ENDED JUNE 30, 2024**

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.



Summary Schedule of Prior Audit Findings
June 30, 2024

Prepared by Management of

The Unemployment Insurance Fund of
the South Dakota Department of Labor
and Regulation

Summary Schedule of Prior Audit Findings

Finding 2020-002

Federal Agency Name: U.S. Department of Labor

Program Name: Unemployment Insurance

FFAL # 17.225

Initial Fiscal Year Finding Occurred: 2020

Finding Summary: During FY2020 testing of Reemployment Services and Eligibility Assessments (RESEA) program cases of the Unemployment Insurance program, instances were identified in which case files were missing certain documentation to support compliance with program policies and program requirements. These instances related to case files of selected participants who did not report or attend their scheduled initial intake meeting, and therefore were non-compliance, and there was no documentation of a notification made to the Reemployment Assistance Division reporting the noncompliance and potential eligibility issue to the Division.

Status: All planned corrective action previously reported now fully completed and taken.

Finding 2023-001

Federal Agency Name: U.S. Department of Labor

Program Name: Unemployment Insurance

FFAL # 17.225

Initial Fiscal Year Finding Occurred: 2023

Finding Summary: Required financial, performance and special reports required by the ET Handbook and ETA guidance that were submitted were not reviewed by an individual separate from the preparer prior to their submission.

Status: Corrective action taken.

Finding 2023-002

Federal Agency Name: U.S. Department of Labor

Program Name: Unemployment Insurance

FFAL # 17.225

Initial Fiscal Year Finding Occurred: 2023

Finding Summary: Performance reports required to be submitted for the Unemployment Insurance program's Reemployment Services and Eligibility Assessments (RESEA) program were not being reviewed by an individual of Unemployment Insurance program staff prior to their submission.

Status: Corrective action taken.