



51st Annual DLA Government Audit Workshop 2025

Summary of Review Points

Glenda Goens
Assistant Director of Local Government Assistance
SD Department of Legislative Audit
2001 9th Avenue SW, Suite 500
Watertown, SD 57201
E-mail: glenda.goens@state.sd.us
Phone: (605) 773-5167



MD&A

1. Information and schedules within MD&A not tracing to the prior audit report and the face of the current financial statements and notes. **I realize there is no opinion given on the MD&A** but bring this up because of the language in the independent auditor's report in relation to RSI (I have applied certain limited procedures to the required supplementary information.....which consisted of inquires of management....and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements).
2. Again, just a reminder: When I am reviewing the MD&A, I am just looking to make sure the financial information within the schedules within the MD&A agree with the face of the financial statements or for the prior year financial information that it ties to the prior audit or to the beginning balances within the current notes to the financial statements. So, if I inform you of financial information that does not tie within the MD&A schedules as just described, that is all I am telling you. I am not reading the language within the MD&A word for word to make sure the financial information found within the MD&A explanations are correct. I am taking for granted that this has been done by your review of these audits before they come to me. So, if you update financial information within the MD&A due to what I find in relation to the schedules, I am taking for granted you are also updating financial information within the language portions of the MD&A based on those changes.



Opinion Letters/ Comments

1. If starting with our canned opinion letters, make sure that you are using the correct version based on the point-in-time being audited and whether the audit is a GAAP or Modified Cash Presentation-Special Purpose Report (SPR). Then, make sure the opinion letters and comment section of the audit reflect the actual situation of the audit opining on (i.e. opinion units, what you are taking responsibility for, opinions are consistent through-out the opinion letters, comments and whether material weaknesses or significant deficiencies are consistent between the opinion letters and the comment section of the audit report, comments numbered properly and referencing the proper year, indicates no prior audit findings but the prior audit report had findings, review the RSI or SI sections to make sure only including what is actually included, when flip-flopping between single audit year and non-single audit year, make sure the SEFA is included in the SI being presented for a single audit, within the independent auditor's report, the paragraph discussing the omission of the MD&A was included in SPR audit report. The MD&A is not missing information as this is SI not RSI under the SPR or modified cash basis report preparation, and etc.)
2. If issuing something other than an unmodified opinion, there are many considerations for the proper language and structure to consider—refer to the AICPA. Example: In the GAS opinion letter if there is something other than an unmodified opinion, at the end of the first paragraph there should be a statement to that fact and why [i.e. DATE, which was a disclaimer because....describe any departure from the standard report, such as a qualified opinion—giving the reason and identifying the affected opinion unit(s)].
3. When completing the prior audit comments, make sure to include the whole prior comment as well as the correct prior audit comment number and not eliminate the portion that has been corrected but rather include the whole prior comment and then state the part that has been corrected since the prior audit.



Opinion Letters/ Comments (Continued)

4. Make sure the opinion letters, comments, summary of auditor's results included within uniform guidance audits agree. Examples: I have had where the uniform guidance opinion letter references a finding. Then within the summary of auditor's results under federal awards section, it indicated the audit did not disclose any audit findings that need to be disclosed in accordance with the 2 CFR 200.516(a). Also, under current federal audit findings—it indicated there were no current federal audit findings to disclose. So, the summary of auditor's results appeared to contradict the uniform guidance opinion letter. Conversely, I have seen in the summary of auditor's results, audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule. However, there were no prior or current findings for the financial statements or the federal award programs reported within the schedule of comments of the audit reviewing.
5. Make sure the summary of auditor's results and what is within the SEFA are the same. Examples: (1) Within the summary was reported the major programs tested. One of the programs tested was the Child Nutrition Cluster--Assistance Listing Number(s) (ALNs) 10.553, 10.555, and 10.556. However, the Child Nutrition Cluster consists of ALNs (10.553, 10.555, 10.556, 10.559, and 10.582). So, my question became, as ALN 10.582 was also reported on the SEFA, were all ALNs considered in testing this cluster? If so, the other ALNs tested should be included on the summary of auditor's results. (2) An ALN was disclosed in the summary of auditor's findings as being tested as a major and then on the SEFA that ALN was not reported and vice-versa. (3) Within the summary schedule of audit findings, it indicates that the program tested as a major was 81.041-Impact Aid. However, the ALN for Impact Aid is 84.041.



Face of the Financial Statements

1. Beginning balances for the current audit not tracing to the ending balances from the prior audit.
2. Make sure the statements of net position/fund balance sheets are in balance and net positions/fund balances agree between the statement of net positions/balance sheets and their corresponding operating statements. Make sure the classifications of equity on the fund balance sheet get properly classified on the statement of net position (i.e. committed/assigned fund balance on the fund balance sheet become unrestricted net position on the statement of net position). Further, make sure the enterprise funds' financial data between the government-wide and fund statements agree (i.e. an operating grant on fund operating statement was within the sewer fund then on the statement of activities, this same operating grant was related to the water fund). Also, make sure the enterprise fund statement of cash flow information can be traced where possible to the fund statement of net position (i.e. cash) and the fund operating statement (i.e. transfers, depreciation, operating income (loss), etc.
3. Reporting negative assets, negative liabilities, negative revenue (except for investment income), and negative expenditures. Even though these may not be material—they sure do jump out when reviewing an audit report and don't reflect normal balances for these types of accounts.
4. With the implementation of GASB 100 for FY and CY 2024, prior period adjustment language is no more. These are now either an accounting change or error correction. I have seen restatement used on the face of the statements with reference to a note disclosure that explains what the restatement was (i.e. accounting change or error correction). I have considered this acceptable as if not shown on the face of the statements it needs to be disclosed in the notes.



Face of the Financial Statements (Continued)

5. Note references within the face of the statements don't tie to the notes to the financial statements.
6. Although a negative net invested in capital assets is possible it is not the norm. So, when I see a negative net invested in capital assets reported, I question whether net invested in capital assets has been calculated correctly. With this being reported as a negative amount, my 1st question becomes: has all related debt issued been spent on its capital asset(s)? The calculation for net invested in capital assets is capital assets minus depreciation, minus (spent) related debt. So, if there is a portion of the debt that has not been spent on capital assets—this should be added back.
7. Reconciliations are reporting the actual situations (i.e. capital outlay expenditures greater than depreciation or vice-versa, OPEB discussed in a reconciliation item, but there was no OPEB reported on the face of the statements).
8. The capital contributions from a governmental fund to an enterprise fund were not included under the noncash investing, capital and financing activities of the cash flow statement. I have also seen the opposite. Where there are noncash capital contributions reported on the cash flow statement and then no transfer between the governmental and business-type activities on the statement of activities.
9. Make sure fund types are titled the same through-out the audit report and that old classifications are updated for accounting changes (i.e. agency funds are now custodial funds).
10. I have noted statements that don't foot. I am not footing the statements but come across footing issues in other ways (i.e. comparison of proprietary fund statements to the government-wide statements, when comparing a budget actual column to the related column on the governmental operating statement, etc.)



Face of the Financial Statements (Continued)

11. Fund Balance Classifications (nonspendable, restricted, committed, assigned, and unassigned) are limited to just the governmental fund balance sheet. These classifications should not be used on any other statement (i.e. have seen them used within the government-wide statement of net position as well as the proprietary fund statement of net position). As far as the reporting within these classifications, I do not see any significant issues with the restricted and committed classifications. However, the nonspendable, assigned and unassigned classifications, I do see more issues. Nonspendable: I see nonspendable items reported as assets (i.e. inventory, prepaids, long-term loan receivables) and then within the equity section can only trace to the amount reported for inventory. Reminder: nonspendable fund balance is made up of account balances that are not in spendable form or currently not in spendable form (i.e. inventory, prepaids, long-term loan receivables, nonfinancial assets held for sale) as well as certain balances that are in spendable form but are legally or contractually required to be maintained intact (i.e. the principal of an endowment fund or a revolving loan fund). Assigned: You can't assign more fund balance than you have, which would cause a negative unassigned fund balance. Therefore, assigned fund balance can never exceed the difference between total fund balance and the sum of its nonspendable, restricted and committed components. Example: if you had assigned \$20 for next year's budget but you have total fund balance of \$120, nonspendable of \$30, restricted of \$50, and committed of \$25, you would only be left with \$15 available to assign. Therefore, you could only report assigned fund balance of \$15 rather than \$20 to prevent a deficit in unassigned fund balance. Unassigned: this classification of fund balance is reserved for the general fund unless a governmental fund other than the general fund were to have nonspendable, restricted, and committed fund balance in excess of total fund balance, the difference would be reported as negative unassigned fund balance.



Face of the Financial Statements (Continued)

12. I have noted capital outlay expenditures within the general fund operating statement that appear could be in noncompliance of State Law. SDCL 13-16-6 (Were leases or purchases of equipment greater than \$1,000—along with other capital purchases on facilities—made from the Capital Outlay Fund). Or were these capital outlay expenditures within the general fund related to the purchase or lease of computer hardware and software allowed by SDCL 13-16-3. Or was the explanation due to needing to report federal grant expenditures within the fund where the federal grant revenue was receipted/reported? Then, my next question becomes, if this was federal grant revenue and expenditure matching related and not for the purchase or lease of computer hardware or software as allowed by SDCL 13-16-3, wouldn't there have needed to be a revenue correction between the general fund and capital outlay fund so the capital outlay expenditures related to the federal dollars could be reported properly in the capital outlay fund?
13. Reported transfers from the impact aid fund to another fund. However, for financial statement reporting purposes the impact aid fund does not exist and is reported within the general fund. Therefore, this transfer should be a transfer from the general fund to the receiving fund.
14. On the statement of activities, there's a transfer-out of the governmental activities with no transfer-in to the business-type activities. Based on what I saw later in the audit report, this appeared to be a transfer between a governmental fund and a fiduciary fund. There is no such thing as a transfer between one of a Government's funds and a fiduciary fund. As the Government is separate from the fiduciary funds (fiduciary funds are not part of the Government—other entity's money). Therefore, any transactions between the Government and fiduciary funds should be revenue/expense-expenditure of the Government and an addition/reduction in the fiduciary fund(s). I see this mainly in School audit reports. Then it makes me wonder whether the fiduciary fund (i.e. custodial fund) impacted should be a custodial fund at all but rather accounted for in one of the Government's funds?



Face of the Financial Statements (Continued)

15. Gains and losses on capital assets—governmental activities. I have seen losses on capital assets put against depreciation and then depreciation within the face of the statements does not tie to the notes or I have seen losses reported as a negative general revenue in the statement of activities. Losses – governmental activities resulting from the impairment of a capital asset should be treated as a direct expense of the function that uses the asset (assuming the loss is not properly classified as a special or extraordinary item). A loss associated with the disposal of a capital asset, on the other hand, would be reported either as an expense of the general government, or as a direct expense of the related function or program, as appropriate, depending on the specific circumstances. Gains-governmental activities associated with a capital asset impairment could produce a net gain (i.e. insurance proceeds based on replacement cost is greater than the capital asset's carrying value based on historical cost). This gain should be treated as a program revenue (charges for services) rather than as a reduction of expense. However, a gain associated with the disposal of a capital asset would be reported either as general revenue, or as a program revenue (charges for services) of the related function or program, as appropriate, depending on the specific circumstances.
16. Classifications of revenue going from the fund statements to the government-wide statement of activities just sometimes doesn't appear proper or follow guidance in the accounting manuals. Examples: State shared revenue on the fund statements is taken to charges for goods and services on the statement of activities. This State shared revenue was not received based on fees charged for goods and services by the Entity but was received by the State and is better classified as an operating grant on the statement of activities. Fines related to a Library going to general revenue/miscellaneous rather than as a charge for good or service/culture and recreation.



Notes to the Financial Statements

1. If choosing to start with our canned notes to the financial statements—make sure you are using the correct version for your audit (i.e. versions used that discussed reported deferred revenues when the language had changed that discussed unavailable revenues, versions used that discuss fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes and should be with implementation of GASB 84: Fiduciary fund equity is reported as restricted net position, pension note, leases, SBITAs, and etc.).
2. Make sure the financial data in the notes to the financial statements ties to the face of the statements whether interfund transfers, restricted net position, fund balance classifications, long-term debt-due within one year, etc.
3. Make sure to eliminate the portions of the canned notes to the financial statements that do not apply to the entity being audited or not eliminate portions of the canned notes that do apply to the entity being audited. Basically, make sure that what is in the notes to the financial statements is reporting what exists for the audit period and the entity being audited.



Notes to the Financial Statements (Continued)

4. Common Items under Note 1.—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In our (DLA) 2024 canned school and municipal notes-1.

e. Deposits and Investments:

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist **entirely (primarily)** of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

What I see in this note:

- The second paragraph not updated for what is on the face of the statements.



Notes to the Financial Statements (Continued)

In our (DLA) 2024 canned school and municipal notes-1.

g. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of **general obligation bonds, capital outlay certificates payable, direct borrowings and direct placements, early retirement benefits payable, notes payable, lease liabilities, subscription liabilities, and compensated absences.** (*REVISE AS NEEDED.*)

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

What I see in this note:

- The second paragraph not revised to what is on the face of the statements and in the long-term liability note.



Notes to the Financial Statements (Continued)

In our (DLA) 2024 canned school notes-1.

h. Leases:

The School District is a lessee for a noncancellable lease of _____.

What I am seeing when reviewing this section of the notes:

- This note discloses the entity is a lessee for noncancellable leases. However, I do not see any leased capital assets nor lease liabilities reported on the face of the statements or in the capital asset and long-term liabilities notes. Again, an instance where this note is not updated for the entity being audited.

Note 1.i. Subscription-Based Information Technology Arrangements. This note has flowed with note 1.h. So, have seen the same with this note as note 1.h.

In our (DLA) 2024 canned school notes-1.

p. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the _____ (fill in appropriate titles such as School Board, Superintendent, Business Manager, etc.).
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Nonspendable Fund Balance is comprised of the following:

Nothing here and then nothing on the face of the statements to detail the nonspendable reported. Should see the detail here or on the face of the statements.

- Amount reported in non-spendable form such as inventory, Insurance Reserve and _____.
- Amount legally or contractually required to be maintained intact such as _____, _____ and _____.
- Amount not in cash form such as long-term portion of loans receivable, _____, _____ and _____.

The Governing Board committed the following fund balance types by taking the following action:

Fund Balance Type	Amount	Action
_____	_____	_____

The School District uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use *committed, then assigned, and lastly unassigned* amounts of unrestricted fund balance when expenditures are made.

The Government **does/does not** have a formal minimum fund balance policy.

[INSERT MINIMUM FUND BALANCE POLICY, IF APPLICABLE]

The purpose of each major special revenue fund and revenue source is listed below:

Major Special Revenue Fund	Revenue Source
_____	_____
_____	_____
_____	_____

[IF THE SCHOOL DISTRICT DOES NOT PRESENT THE DETAIL OF THE FUND BALANCE CATEGORIES ON THE FACE OF THE FINANCIAL STATEMENTS, INSERT THE FOLLOWING]

A schedule of fund balances is provided as follows:



Notes to the Financial Statements (Continued)

5. Note related to receivables and payables and the fact that all receivables are expected to be collected within one year. Then you see the due to/due from increase between the prior year and current year. The question becomes—should this be considered an advance to/from? GASB Codification 2300.125 requires significant receivable balances not expected to be collected within one year of the date of the financial statements should be disclosed. GASB Codification 2300.126 requires that governments should disclose in the notes to the financial statements the following details about interfund balances reported in the fund financial statements:
- Amounts due from other funds *by* individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and type of fiduciary fund
 - The purpose for interfund balances
 - Interfund balances that are not expected to be repaid within one year from the date of the financial statements.

6. In our 2024 canned school notes-10.- Changes in Capital Assets:

What I see when reviewing this section of the notes:

- I usually see this note completed correctly. However, with the new intangible leases and intangible subscription assets may need to leave in the language depreciated/amortized or depreciation/amortization rather than deleting the amortization/amortized language from this note. Again, this note needs to agree with the face of the statements and the significant accounting policy notes.

7. In our 2024 canned school notes-12.- Long-Term Liabilities, 13 – Leases, and 14—SBITAs:

What I see when reviewing this section of the notes:

- Note 12. is titled, Long-Term Debt rather than Long-Term Liabilities
- The lease liabilities (under GASB 87) and the SBITA liabilities (under GASB 96) are included within the long-term liabilities note. I don't have a problem with this as this is what is stated in the accounting policies related to GASB 87 leases and GASB 96 SBITAs.
- Leaving in language for capital leases rather than labeling them as direct borrowings/financings. With the implementations of GASBs 87 and 88, the old capital leases are usually considered financing activities rather than lease activities and therefore are direct borrowings/financings. The only leases that should be labeled as leases is the leases under GASB 87.



Notes to the Financial Statements (Continued)

8. No purpose disclosed for interfund transfers.
9. Again, make sure to update the whole pension note to the financial statements (language changes, dates, and percentages).
10. Pension Note: if reporting on the modified cash basis with the only modification being cash investments with greater than 90-day maturities, this sentence can be deleted: (On December 31, 20??, the Municipality(City) reported an (asset) of (\$) for its proportionate share of the net pension (asset)), as the pension asset in the amount of \$ is not reported on the face of the financial statements.
11. Pension Note: the deferred outflows and inflows of resources do not tie to the face of the financial statements—the deferred inflows and outflows are netted on the face of the statements and reported separately in the notes. Based on GASB 68 Implementation Guide Q. 71 and GASB 68 paragraph 33, these should not be netted on the face of the statements.
12. The Risk Management Note: make sure to update to the entity being audited.
13. Based on GASBs 51 and 87, water rights fall under GASB 51 and not GASB 87 and therefore the water rights or intangible assets related to GASB 51 should be shown separately within the capital assets schedule as Other Intangible Assets under capital assets being depreciated/amortized and less accumulated depreciation/amortization sections of this schedule as well as the intangible assets related to GASB 87 should be shown as Intangible Lease Assets under capital assets being depreciated/amortized and less accumulated depreciation/amortization sections of this schedule.



Notes to the Financial Statements (Continued)

Remember: the canned notes that are supplied on our website are just a starting point and try to meet all situations whether reporting on GAAP or non-GAAP basis (SPR). Especially need to take a closer look when reporting on a modified cash basis as there are several different modifications that can be included and our canned notes try to incorporate all options possible but should not just take everything included as what you need (i.e. within the modified cash notes, there is a long-term debt note. However, if long-term debt is not a modification but the entity wants this information included, this is usually presented as SI information).

As one can see, most of the issues with the note disclosures come from not updating the boiler plate notes to fit the entity being audited.



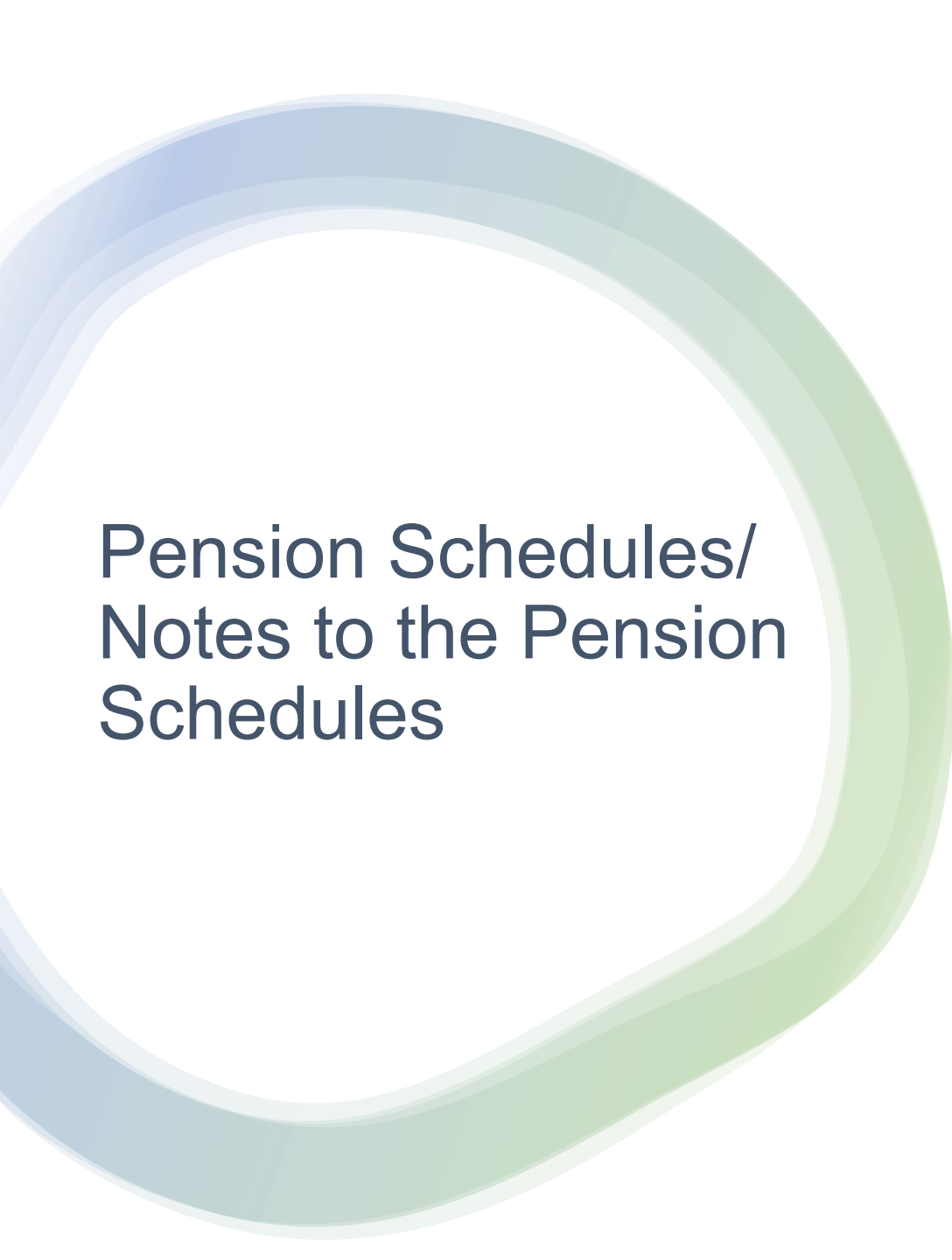
Budget Statements

1. Budget adoption problems: significantly over estimating revenue or the means of finance—may be a violation of law by not providing a means of finance for all anticipated expenditures plus the fact an entity may be budgeting themselves into a deficit situation; or the adopted budget is not in balance, means of finance does not equal appropriations—usually see where appropriations are greater than means of finance in violation of SDCL 9-21-2. Entity officials supplemented a budget where the means of finance did not cover the appropriations, which is in noncompliance with SDCL 9-21-7. In these instances, I will usually comment on whether noncompliance was considered for disclosure in the audit report.
2. Saw budget overdrafts within the budget statements within the audit report and then no note disclosure within the notes to the financial statements for significant violations of finance-related legal and contractual provisions or a noncompliance comment. In these instances, I will usually comment on whether noncompliance was considered for disclosure in the audit report. As I am not reviewing working papers, I don't know how material the overdraft is.
3. Budget statements not presented for “all” major special revenue funds.



Notes to the Budget Statements

1. Again, make sure that the notes to the budget statements is what is happening (i.e., being presented on a modified cash basis versus GAAP if a modified cash basis audit versus GAAP basis, what is occurring in relation to capital outlay expenditures on the operating statement versus the budget statements, etc.).



Pension Schedules/ Notes to the Pension Schedules

1. Missing financial data when compared to the prior audit and not yet having 10 years of activity presented.
2. For the audit being reviewed, the prior financial data within the pension schedules does not tie to the prior financial data within the prior audit report.
3. Where applicable, the pension schedule information does not tie to the pension note within the notes to the financial statements.
4. Notes to the pension schedules included is not the pension note that should be included (i.e. the notes are for year ended June 30, 2023, rather than for the year ended June 30, 2024).



Schedule of Expenditures of Federal Awards (SEFA)

1. SEFA indicates a pass through the SD Department of Environment and Natural Resources (DENR) and should be SD Department of Agriculture and Natural Resources as DENR is no longer the title of this State Agency.
2. ECFR 200.510 (b)(2), indicates that the SEFA should “for federal awards received as a subrecipient, the name of the pass-through entity and **identifying number assigned by the pass-through entity** must be included.” I raise this item as it sounds like the feds do not like when the filings come in without these pass-through identifying numbers assigned by the pass-through entity.
3. On some SEFAs I see the program is a pass-through the State of South Dakota but it fails to report what State Agency of the State of South Dakota the program dollars passed through.
4. Review the process in determining major programs for testing.
5. The COVID dollars reported as being passed through the SD Bureau of Finance and Management at ALN 21.027 appear did not pass through this State Agency but rather may have passed through the SD Department of Agriculture and Natural Resources.
6. Make sure programs on the SEFA are titled correctly based on the ALN.



Schedule of Expenditures of Federal Awards (SEFA)—Continued

7. When airport improvement grants are reported on the SEFA, they appear to be direct awards rather than pass-through awards through the SDDOT based on looking at the project numbers. Project numbers for the airport improvement program dollars-ALN #20.106, are direct awards if the third set of numbers in the project number are 00##--a channeling situation through the SDDOT or are indirect funding/pass-through the SDDOT if the third set of numbers in the project number are 4600. It is in the pass-through situation where the SDDOT would have monitoring responsibilities while in the channeling situation, SDDOT has no monitoring responsibilities.
8. I usually see that most entities have not chosen to use the 10-percent de minimis indirect cost rate as allowed by Uniform Guidance. However, noted that this was a change to the canned SEFA notes. Canned notes try and cover both scenarios (yes or no) to using the 10-percent de minimis indirect cost rate. So, again make sure what is stated in the notes to the SEFA is the case for the entity being audited.

Remember: the canned SEFAs that are supplied on our website are just a starting point. Make sure the SEFA within the audit report fits or agrees with the activity at the entity under audit.



When We (DLA) Need to be Involved with an Audit

This point has been raised and has to do with the engagement of an audit itself. There are instances where we have not received engagement letters or have received engagement letters and draft audit reports on the same day, and it did not appear that engagement approval was granted by the auditor general for a firm to perform an audit. Here is a reminder: Although this is not a firm's responsibility but rather the auditee's responsibility to obtain this audit approval, we are just asking that firms remind the auditee of this requirement. Below are the SDCL references for this requirement.

4-11-2.1. Charitable or nonprofit corporations to comply with certain audit requirements.

Any charitable or nonprofit corporation receiving federal funds through the state or its political subdivisions, that is required to be audited in accordance with the Federal Single Audit Act Amendments of 1996 Public Law 104-156 (31 U.S.C. sections 7501 to 7507) as amended to January 1, 2003, shall comply with the provisions of § [4-11-7](#), except for the restrictions on payment for the audit, when hiring a public accountant to perform the audit. The auditor-general may examine all financial records, related to funds provided by the state or its political subdivisions, of any charitable or nonprofit corporation if deemed necessary and in the public interest by the auditor-general.

Source: SDC Supp 1960, § 55.2906 (1) as added by SL 1968, ch 205, § 2; SL 2003, ch 31, § 1.

4-11-7. Audit by private accountant--Acceptance in lieu of required audit.

Nothing contained in this chapter prevents a public corporation from employing a private accountant to examine and audit the books and accounts thereof or of any of its officers if the governing body or authorized official believes that the public interest requires it, and if such employment is first approved by the auditor-general. No private audit may be paid for before a copy thereof is filed with and approved by the auditor-general. The entity receiving audit services may approve progress payments proportionate to the audit work completed so long as ten percent of the amount billed is withheld pending approval by the auditor-general of the final report. The auditor-general may accept such audit in lieu of an examination otherwise required to be made by the auditor-general.

Source: SL 1943, ch 258, § 7; SDC Supp 1960, § 55.2907; SL 1966, ch 165, § 8; SL 1981, ch 32, § 1; SL 2011, ch 2, § 111.