

**A Legislator's Guide  
to the  
Department of Legislative Audit**

**December 2020**

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## **Introduction**

This guide is intended to provide legislators with an overview of the mission, history and function of the Department of Legislative Audit (DLA). In addition, it provides information on the organization and staffing of DLA and a description of the services we provide. Finally, the guide provides details on the standards that govern the conduct of work performed by DLA.

The guide is presented in a question and answer format and each of the questions are listed in the table of contents to facilitate future reference.

The guide will also be available on the DLA website at the following:  
<https://legislativeaudit.sd.gov/resources/legislators/legislatorsguide.aspx>

## **What is the mission of DLA?**

To serve the legislators and taxpayers of the State of South Dakota by providing quality independent audits and assistance to enhance public accountability, improve reporting capability and strengthen operational controls of state and local government.

## **What is the statutory authority for DLA?**

South Dakota Codified Law (SDCL) 4-2 provides for the creation of the Department and a Department seal; the qualifications, salary, appointment and removal of the Auditor General; the employment of personnel; oversight by the Executive Board of the Legislative Research Council (Executive Board); access to records and property; and subpoena and examination of witnesses in investigations.

SDCL 4-11 provides for the audit of state government, counties, municipalities, school districts and charitable or nonprofit corporations receiving state appropriated funds; internal control reviews for certain municipalities; preparation and distribution of accounting manuals for counties, municipalities and school districts; audit approval for private accountants; billing for audit costs of state and local governments; audit of Department of Legislative Audit by State Auditor; and confidentiality of persons providing information to the Department.

## **How long has there been a DLA?**

The Department was created in July of 1943 and was known as the Department of Audits and Accounts. The head of the newly created office was the Comptroller. In 1966 the title of the head of the Department was changed to Auditor General of South Dakota. The Department name was changed in 1974 to Department of Legislative Audit.

## **How many people have served as Auditor General?**

Six people have served as Auditor General. John Penne was the first and served from 1943 until 1970. Eldon Stoehr served from 1970 until 1977, Gordon Milbrandt served from 1977 until 1983, Maurice Christiansen served from 1983 to 2000, Martin Guindon has served from 2000 until 2020 and Russell Olson has served from 2020 to the present.

### How is the Auditor General appointed?

The Auditor General is appointed for an eight-year term by a joint resolution of the Legislature and there is no limit on the number of terms he or she can serve. The Auditor General can be removed without cause by a joint resolution of the Legislature any time it is in session.

### What is the legislative oversight of DLA?

The Executive Board directs the activities of DLA. This includes but is not limited to the approval of salaries; annual budget to be submitted to the appropriations committee of the Legislature, personnel policies and major policy decisions.

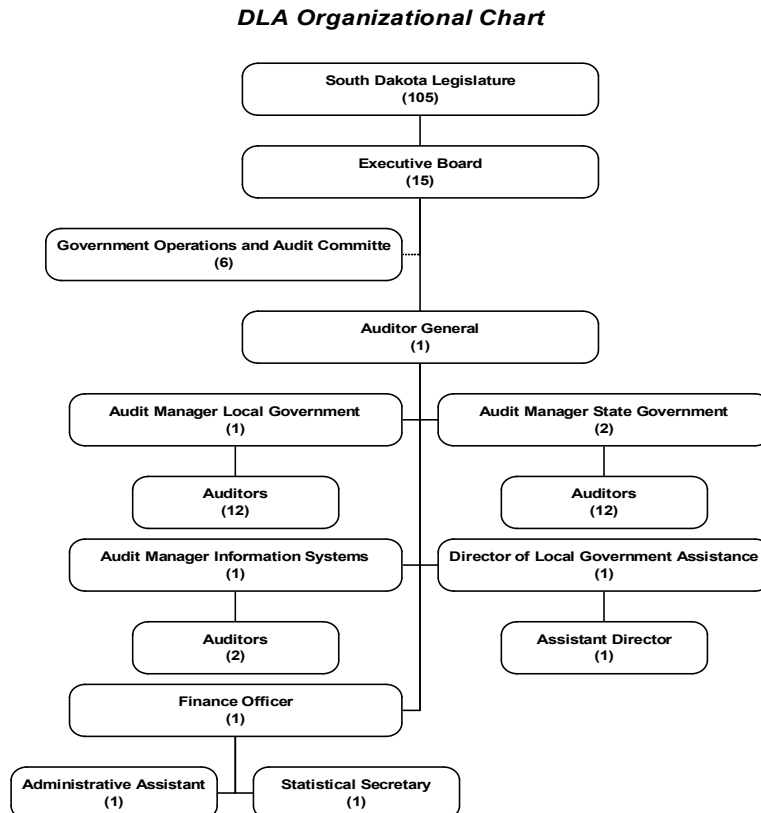
The Government Operations and Audit Committee (GOAC) is a standing committee of the Legislature. Each year it is activated in the interim to review audits of state government. It provides support to DLA for audit findings and recommendations and gives state agencies an opportunity to respond.

### Who provides legal support for DLA?

Currently, the Attorney General designates one of his staff to provide legal support as needed by DLA.

### What is the organizational structure and staffing of DLA?

DLA is currently authorized 36 FTE with 23 people located in Pierre and the remaining 13 located in various cities throughout the state. The following chart details the organizational structure of DLA.



The following table provides the names, phone numbers for the management team of DLA.

### Department of Legislative Audit

**Russell A. Olson**  
Auditor General  
Phone: 773-5934

**Bob Christianson**  
State Government Audit Manager  
Phone: 773-6449

**Tim Flannery**  
State Government Audit Manager  
Phone: 773-6442

**Kelly Mikkelsen**  
Information Systems Audit Manager  
Phone: 773-5934

**To Be Determined - Contact Auditor General**  
Local Government Audit Manager  
Phone: 773-5934

**Rod Fortin – Sioux Falls**  
Director of Local Government Assistance  
Phone: 367-5810

**Laurel Sharp**  
Finance Officer  
Phone: 773-6453

#### What are the hiring and training practices of DLA?

DLA prefers to hire graduates of South Dakota universities and colleges who meet the following requirements:

- Major in accounting or equivalent
- Computer coursework and software proficiency
- Grade point average of 3.0 or better
- Analytical skills
- Strong interpersonal skills

DLA employees receive an intensive initial two-day orientation. Professional staff also receive eighty hours of continuing education every two years as required by professional standards. Much of the training for new employees is provided on the job.

#### What services does DLA provide?

##### **Audit Services:**

DLA performs financial and compliance audits of state agencies and local governments including the following types of entities:

##### State entities:

State Agencies  
Universities  
Authorities

##### Local governments:

Counties  
Municipalities  
School Districts  
Townships

DLA performs agreed upon procedure reviews of state agencies as directed by the Executive Board. DLA also provides audit services pursuant to special requests and in cases of fraud.

### ***Local Government Accounting Systems:***

DLA develops and maintains the accounting systems and associated accounting manuals for counties, municipalities and school districts.

### ***Assistance:***

#### **State Entities**

DLA provides assistance to state agencies concerning internal control systems, accounting policy, computer systems implementation, federal compliance issues and many other matters.

#### **Local Governments**

DLA provides assistance to implement accounting systems for local governments by holding periodic workshops on basic accounting and completion of required annual report forms.

DLA prepares a Bid Booklet that details the legal requirements for procurement of goods and services by local governments (available on our website at <https://legislativeaudit.sd.gov/resources/Bid%20Booklet%202020.pdf>) This booklet is continuously updated and widely distributed to local and state government officials as well as the vendor community.

A database of annual financial report information for counties and municipalities is maintained by DLA, and made available on our website, to facilitate decision making by various parties. Local and state government officials, local governing board members, legislators, citizens, and academicians have requested information from this database.

DLA also provides assistance on other matters of concern to local governments by telephone or onsite depending on the situation.

#### **Legislature**

DLA provides assistance to the Legislature during session and throughout the year by answering requests for information. Additionally, DLA monitors bills during the legislative session and provides testimony or commentary when it is appropriate or requested by the Legislature.

#### **Independent Public Accountants (IPA) Technical Support**

DLA approves all audits of state and local governments and certain non-profit organizations conducted by IPAs. This approval process includes desk reviews of audit reports issued by the IPAs.

DLA conducts an annual conference to provide training and information to the IPAs with the objective of improving the quality and consistency of government audits performed in the state. Additionally, to assist them with their audits, DLA provides data to the IPAs including state payments to local governments and federal surplus property received by local governments.

### **What is an Audit?**

An audit consists of the process used by properly trained and experienced persons, who are independent from management of an auditee, to gather evidence from both inside and outside an organization to allow the formation and communication of a professional opinion about the fairness of the organization's financial reports and its compliance with applicable legal requirements. Auditing is the art of objectively evaluating the evidence gathered, making judgments, and reaching logical conclusions from the evidence. Auditing cannot be reduced to rote.

Financial statements prepared by management and transmitted to outsiders without first being independently audited, suffer a lack of credibility. In reporting on its own administration of government affairs, management can hardly be expected to be entirely impartial and unbiased, any more than a basketball coach could be expected to serve as both coach and official referee in the same game.

Because persons who audit financial statements must be both technically competent and independent of the entity being audited, the public can have confidence in their objectivity and impartiality. Audits provide credibility to financial statements. Credibility means that the financial statements can be believed; that is, they can be relied upon by outsiders, such as the Legislature, taxpayers, other levels of government, creditors, and others.

Financial and compliance audits of governments, through inquiries, observations, analyses, and sampling of transaction data, are designed to determine whether a public-sector entity's financial statements are presented fairly in accordance with generally accepted accounting principles, and to determine whether the government entity has complied with applicable laws, regulations and contractual agreements that may have a material effect on the financial statements.

A Single Audit is a special type of audit, required by the federal government, that has specific guidelines for auditors to follow. Those guidelines must be followed in order to determine how many and which federal awards to test, which compliance requirements to test for each program, and how much testing is adequate.

When the amount of federal awards expended by an entity during its fiscal year exceeds a certain level, the Single Audit Act requires an entity-wide audit that includes all funds, programs, and operations of the entity. All federal granting agencies are supposed to rely on the entity-wide Single Audit, in lieu of requiring individual audits of federal awards. The Act places audit responsibility with the states and local governments that receive federal awards. Both DLA and IPAs are required to conduct Single Audits in accordance with Generally Accepted Auditing Standards and Government Auditing Standards.

## How does DLA determine who to audit?

### **State Government:**

#### **State Requirements**

State law requires state agencies to be audited once in a two-year period. The statewide audit approach provides for an annual audit covering all state agencies. The scope of audit coverage for individual state agencies will vary, depending on materiality, complexity, legislative interest and risk.

Several state agencies and one non-profit organization are audited annually, and separate audit reports are issued, as required by state law. The audit reports of these state agencies are incorporated into the South Dakota statewide audit report.

#### **Federal Requirements**

The United States Congress passed the Single Audit Act that requires states to audit federal awards. The *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* establishes the regulations for implementing the Single Audit Act. *Uniform Guidance* provides criteria for determining the federal awards to be audited and suggested audit procedures to be followed when testing state agencies' compliance with federal regulations.

#### **State Agency Requests**

State agencies request audits of funds for various purposes. Annual audits of the Revolving Economic Development Initiative Fund and Economic Development Finance Authority are performed at the request of the State Agency. Audits relating to frauds are conducted at the request of the Attorney General, the Governor or at the direction of the Auditor General. Constitutional officers sometimes request audits of their offices when they are first elected to office.

#### **Executive Board of the Legislative Research Council**

The Executive Board directs the DLA to perform specific reviews or audits of state agencies or specific issues relating to state agencies.

#### **Auditor Judgment**

In addition to the consideration of materiality and risk, DLA schedules audits of state agencies or programs within state agencies based on when the last audit was conducted. Our objective is to perform audits of specific programs or funds of state agencies that do not fit other audit criteria.

Audits are scheduled based on special circumstances. State operations of special interest to the Legislature may receive increased audit coverage.



## Allegations of Impropriety

A legislator, state agency official, private citizen, etc. may provide DLA with information that would indicate a potential problem at a state agency. In addition, the DLA website has a portal for anyone to “Report Fraud, Noncompliance or Abuse”. This can be done anonymously if desired. The information is reviewed to determine if the allegation has merit. The link to the DLA website Report Fraud, Noncompliance or Abuse is as follows:

<https://legislativeaudit.sd.gov/fraud.aspx>

## Local Government:

### State Requirements - SDCL 4-11-4

Counties - All 66 counties are required to be audited at least once every two years. Therefore, most of the counties receive two-year audits every other year. Six counties have opted to receive annual audits.

Municipalities - There are approximately 70 audits completed each year from the total of 308 municipalities. Audit requirements vary depending upon the total revenues of a municipality. An average of the number of municipalities for each category is as follows:

<u>Total Revenues</u>	<u>Number of Municipalities</u>	<u>Requirement</u>
\$600,000 and greater	150	audits (at least once every two years)
\$100,000 to \$600,000	85	internal control reviews (once every five years)
less than \$100,000	73	annual report filing

Schools - Each of the roughly 170 schools, cooperatives and multi-districts must receive an audit at least once every two years. As a result, there are approximately 150 school district audits performed each year. Most of the districts receive annual audits with a number of the smaller districts opting for two-year audits.

### Federal Requirements

*Uniform Guidance* requires entity wide single audit of all local governments that spend \$750,000 or more of federal funds in a fiscal year. This requirement will trigger several audits each year of mid-sized municipalities that normally would not be required to have an audit.

### Requested by the Governing Board

Pursuant to SDCL 4-11-4, an audit may be performed of any local government at the request of the governing board. These requests would normally come from smaller municipalities, townships or special districts that have no audit requirements. Many of the concerns of these governing boards can be handled by phone, email or onsite assistance without incurring an audit cost.

### **Initiated by Petition of 20% of Resident Taxpayers**

Occasionally, DLA will receive a petition for an audit from a small town or township. As outlined in SDCL 4-11-5, DLA performs the audit and works with the entity on any problems that may have surfaced.

### **Initiated by Auditor General if Special Reasons Exist**

SDCL 4-11-4 authorizes the Auditor General to perform an audit of any local government if special reasons, such as fraud, exist. These audits generally originate from an informant that may be a taxpayer or employee of a local government entity. The number of these audits varies from year to year.

### **Internal Control Reviews**

Designed specifically for smaller municipalities, the reviews verify if a proper control system is in place rather than primarily focusing on the financial statements. They are required by SDCL 4-11-4.1 once every five years for municipalities with \$100,000 to \$600,000 in annual revenues. These reviews usually take only a couple of days to perform, which makes them a very cost-effective tool to assist in the establishment of controls to safeguard public assets and the maintenance of a proper accounting system in small municipalities.

### **Which of the required audits of local governments does DLA perform?**

Audit effort of DLA local government staff is allocated under the following priority:

**State Audits Outside of Pierre** - A number of the field staff are located near large outlying state facilities, such as universities, so that they may be audited in conjunction with the statewide audit.

**Legislative Requests** - The needs of any legislative requests are planned into each year's audit schedule.

**Frauds** - Several fraud audits are performed by DLA each year. They are very hard to schedule because it is never known where, when or how many will occur. A strong working relationship has developed with the Division of Criminal Investigation and the Attorney General's office over the years so that joint investigative work may be properly developed.

**County Audits** - Approximately half of the counties are audited by DLA each year. Counties have been given a strong focus by DLA because they are the central transfer point for most of the local government dollars (property taxes, bank franchise taxes, motor vehicle licenses, fines, fire insurance reversion, etc.).

**Internal Control Reviews** - As required by state law, there are approximately 15 to 20 of these reviews performed of small municipalities each year. They only take about 2-3 days to complete.

**Special Requests** - Each year DLA's services are specifically requested by a few local government entities. DLA tries to meet as many of these requests as possible.

**School Audits** - About two to three school district audits are performed each year by DLA. The requested audits of these schools assist DLA in maintaining a degree of expertise for the other school related services provided.

**Municipal Audits** – DLA’s goal is to audit municipalities that require an audit once every six years. To meet this goal approximately 14 municipal audits would need to be performed by DLA each year. Because of the varying demands of the preceding items listed, DLA has averaged less than five municipal audits per year in recent years.

### **What are the objectives of DLA’s audits?**

DLA’s primary audit objective is to issue independent and timely audit reports to taxpayers, legislators and other users that describe a government’s stewardship of public funds and its compliance with laws and regulations. Another objective of DLA’s audits is to provide the government’s management and governing board with recommendations for improvement when deficiencies are identified during an audit.

### **What standards govern the conduct of DLA’s audits?**

SDCL 4-11-2, 4-11-4 and 4-11-7.1, as well as the federal Single Audit Act, require audits of government entities to be conducted in accordance with “generally accepted government auditing standards.” Generally accepted government auditing standards are established by the Comptroller General of the United States. They are broad statements of auditor’s responsibilities. They are not unattainable ideals toward which auditors’ strive, rather they set forth *minimum* standards covering the conduct of government audits; and they incorporate, supplement, and modify generally accepted auditing standards set forth by the American Institute of Certified Public Accountants for audits of financial statements. Standards are rules for measuring the quality of an audit.

### **Auditing Standards:**

The purpose of an audit is to provide financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. An auditor’s opinion enhances the degree of confidence that intended users can place in the financial statements.

Auditors are responsible for having appropriate competence and capabilities to perform the audit; complying with relevant ethical requirements; and maintaining professional skepticism and exercising professional judgment throughout the planning and performance of the audit.

Based on an evaluation of the audit evidence obtained, the auditor expresses, in the form of a written report, an opinion in accordance with the auditor’s findings, or states that an opinion cannot be expressed. The opinion states whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

In addition, the professional standards presented in the 2018 revision of Government Auditing Standards (known as the Yellow Book) provide a framework for performing

high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services. These standards, commonly referred to as generally accepted government auditing standards (GAGAS), provide the foundation for government auditors to lead by example in the areas of independence, transparency, accountability, and quality through the audit process.

Audits provide essential accountability and transparency over government programs. Given the current challenges facing governments and their programs, the oversight provided through auditing is more critical than ever. Government auditing provides the objective analysis and information needed to make the decisions necessary to help create a better future.

*Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the related OMB Compliance Supplement impose additional specific auditing requirements for audits of federal awards. Auditors must be familiar with the provisions of Uniform Guidance and Compliance Supplement. Additionally, the auditor should be familiar with the Code of Federal Regulations pertaining to federal awards under audit.

In addition to the above auditing standards, DLA subscribes to the Code of Professional Conduct established by the American Institute of Certified Public Accountants and adopted by the SD Board of Accountancy. The Code of Professional Conduct relates to professional responsibilities, the public interest, integrity, objectivity, and independence, due care, and the scope and nature of professional services.

### **Accounting Principles:**

For governmental entities, the highest authoritative source for GAAP is the Statements and Interpretations issued by the Governmental Accounting Standards Board (GASB), a private sector not-for-profit organization.

DLA does provide input into the accounting and auditing standards setting process through studying and responding to drafts of proposed standards as they are issued. We believe that it is vital to make our views and the views of small governments known to the standards setters. DLA is in a unique position to understand the needs and capabilities of local government finance officials and to communicate those needs and capabilities to the respective standards setters.

### **How does DLA determine what to audit?**

#### **State Government:**

The statewide audit is divided into two major components; compliance testing and, audit of the financial statements.

#### **Compliance testing**

State compliance relates to determining if a state agency complied with state laws and administrative rules. If a state agency is governed by a board or commission with

administrative authority, testing will also include compliance with policies of the board or commission. DLA determines what state laws, administrative rules and policies will be tested for compliance, based on financial significance or other issues that might have a significant impact on the operation of the state agency.

The federal government establishes the significant compliance issues for major federal awards. DLA determines which compliance issues must be tested for major federal awards administered by South Dakota. DLA also reviews correspondence with federal agencies, state plans and other federal program related material for issues that might impact the audit. The specific audit tests performed on federal awards are based on this review.

### **Audits of financial statements**

All financial data on the state's accounting system are evaluated to determine which accounts represent material financial transactions and which accounts represent the highest risk of material misstatement. Based on materiality considerations, risk considerations and past experience with auditing the financial statements of the State, DLA determines the financial statement accounts that must be tested to express an opinion on the State's financial statements. The audit testing of compliance issues addressed above provides significant audit coverage of financial information for state and federal funds.

### ***Local Government:***

Each local government audit may be divided into two major components; compliance testing and, audit of the financial statements.

### **Compliance testing**

Compliance testing in local government audits includes testing for compliance with local ordinances, bond covenants, state laws and federal regulations. The auditing standards require DLA to test compliance with laws that have a material impact on the financial statements. In addition, federal regulations require auditors to perform certain testing of federal awards.

A checklist of approximately 30 state laws is tested during each municipal and school district audit. For county audits, the compliance with numerous state laws is developed into the audit plan for each county. These compliance items are selected for testing by first reviewing all state laws applicable to the appropriate type of entity, either municipality, county or school. Consideration is given to the potential effect of noncompliance with each particular state law in reviewing these laws for possible inclusion on the checklist or in the audit plan. The laws selected for testing are ones that provide a significant internal control over the local government's revenues, expenditures or assets. These checklists and audit plan are updated annually based upon any changes in state laws.

### **Audits of financial statements**

Asset, liability, and equity accounts of local government financial statements, together with revenues and expenditures or expenses, are analyzed to determine materiality and

the type of testing that will be necessary to complete the audit. The controls over revenue, expenditure and payroll systems are also analyzed so that appropriate samples may be selected and tested.

The risk and materiality of the transactions of outlying departments such as highway departments, jail facilities and other offices are analyzed and added to the overall audit plan, often on a rotating basis.

An audit only performs testing of financial data sufficient to render an opinion as to the material fairness of the financial statements. Taxpayers on the other hand sometimes believe that each and every transaction is tested. The difference between what the auditors do and the taxpayers think they do is referred to as the "expectation gap".

### **What are the products of an audit by DLA?**

While working at the audit site, DLA auditors are available to answer questions that officials may have about various topics or concerns. Auditors also provide insight into new issues or developments that will impact the entity in the near future. After the completion of the audit, assistance continues to be provided to entity officials throughout the year as questions or new developments occur because of law changes, new standards being promulgated or entity staff turnover.

An audit report is a public document issued at the completion of an audit. SDCL 4-11-9 requires DLA audit reports to be released within sixty days of fieldwork completion. The Single Audit Act requires that single audit reports must be completed and released within nine months of the fiscal year end being audited.

A typical audit report for an entity not required to have a single audit would consist of the following:

- 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* - This report informs the user that DLA audited the financial statements; the standards followed in performing the audit; and, and that a report was issued on the financial statements. It goes on to explain that tests of compliance with laws, regulations, contracts and grants were performed and the results of that testing. The consideration of the entity's internal control over financial reporting is explained and what was discovered as a result of our work. If material weaknesses in internal control existed, it would be identified within this report.
- Independent Auditors Report - This report informs the user of the report that the financial statements of an entity have been audited by DLA and that our responsibility was to express an opinion, which is included, as to whether or not the financial statements present fairly in conformity with generally accepted accounting principles the financial position and results of operations and cash flows, as applicable. The standards followed in performing the audit are also identified and what those standards required DLA to do. A brief explanation of what an audit includes is also provided.
- A Schedule of Prior and Current Audit Findings and Questioned Costs - This schedule lists prior audit findings and whether or not the prior recommendations were implemented. Any current audit findings and recommendations for changes are listed along with the entities corrective action plan, if any.

- Basic Financial Statements - All funds administered by the entity would be included in these financial statements.
- Notes to the Financial Statements - Professional standards require that certain additional information relating to the financial statements be provided as part of the financial statements. These notes include the significant accounting policies implemented by the entity along with additional note disclosure concerning such things as: long term debt; deficit fund balances; expenditures in excess of appropriations; property taxes; changes in general fixed assets; conduit debt; retirement plans; significant commitments; joint ventures; entity risk management; litigation; related party transactions; and subsequent events.

An audit report for an entity required to have a single audit would include everything listed above plus the following:

- Independent Auditor's Report on the Schedule of Expenditures of Federal Awards - This report provides an opinion as to the fair presentation of the schedule that reports all federal awards expended during the audit period.
- A Schedule of Expenditures of Federal Awards - This schedule lists all federal awards expended by the entity during the audit period. This schedule includes: the federal department granting the funds; the catalog of federal domestic assistance number applicable to the program; the federal agency granting the funds; the federal program name; and, the dollar amount expended by the entity during the audit period.
- Independent Auditor's Report on Compliance for Each Major Federal Program and Internal Control Over Compliance Required by Uniform Guidance - The professional standards required to be followed in performing the audit is included. This report explains that compliance with the requirements included in the OMB Compliance Supplement was audited and that the results are included in the schedule of prior and current audit findings and questioned costs. An opinion is issued as to whether or not the entity complied, in all material respects, with the compliance requirements for each major federal program along with the disclosure of any instances of noncompliance that is required to be reported. The report also explains that the internal control over compliance with the compliance requirements was also considered and tested. Any internal control deficiencies that would be required to be reported are identified and any material weakness in internal control is specifically identified.

The Single Audit Report of the State of South Dakota also includes an introductory section. This section provides information about the state's financial statements and other general information about the state. A statistical section is included after the financial statement section, which provides various statistics and demographic information. The Bureau of Finance and Management prepares these two sections as part of the State of South Dakota's Comprehensive Annual Financial Report.

### **How are the results of DLA's audits communicated?**

During the course of the audit, the appropriate entity officials are apprised of any problem or error encountered as part of the audit as soon as it is discovered so that corrective action may be taken as soon as possible. Once the fieldwork is completed, an exit conference is held with the entity officials to go over all problems, errors, and potential comments noted as part of the audit. This is another opportunity for entity officials to provide any additional insight or documentation not previously available to the auditor.

For all audits performed by DLA we utilize an electronic work paper software program, ProSystem FX Engagement. The utilization of this electronic work paper system has allowed us to be more efficient and effective in our audit process. This system allows us to perform all steps of an audit engagement electronically from preliminary planning all the way through the completion of the draft audit report.

Once the draft report prepared and reviewed by the audit manager it is sent to the entity officials for their review for any possible errors or inaccuracies within the report. Entity officials are given an opportunity to have a formal closing conference where all items within the audit report can be discussed. Entity officials are asked to prepare a corrective action plan for any written comment appearing within the audit report. The corrective action plan is incorporated into the final audit report.

Pursuant to SDCL 4-11-11, the audit report is not released as a public document until 10 days after the final report has been sent to the entity. At that point the audit report is a public document which can be examined by any interested party.

Audit findings for counties, municipalities and school districts must be published in their official newspaper. DLA or the independent public accountant (IPA), in the case of schools, prepares a notification of the audit results, which is then sent to the entity's official newspaper for publication. Any audit needing legal action is sent to the appropriate legal authority.

After the 10-day waiting period, state agency audit reports are distributed to the Governor according to SDCL 4-11-9. The Legislative Research Council and the Bureau of Finance and Management also receive a copy of the report at their request. Any audit report needing legal action is also sent to the Attorney's General Office.

In addition, all audit reports issued by DLA or the IPA are posted on DLA's website and are available to the public at the following:

<https://legislativeaudit.sd.gov/reports/reports.aspx>

The Government Operations and Audit Committee (GOAC) reviews all state agency audit reports and decides what action, if any, is needed to correct the problems identified. The GOAC prepares and submits an annual report of its actions to the Executive Board.

All single audit reports for both state and local governments are sent to the Federal Audit Clearinghouse. The Federal Audit Clearinghouse distributes copies of the audit reports to the appropriate federal agencies.

### **Who are the users of DLA audits?**

Users of DLA audit reports include:

- Taxpayers
- Auditee Management Officials
- Legislators
- Governing Board, Council or Commission
- Grantors - Federal, State, and Local Government Agencies, Private Entities
- Bondholders/ Underwriters/ Bond Councils
- Bond Rating Organizations



Investors/ Investment Brokers/ Investment Management Group  
Peer Organizations within the State and External to the State  
Insurance Companies  
Other States Audit Organizations  
The Press

## **What is the scope for reviews of audits done by Independent Public Accountants (IPAs)?**

### ***Local Government:***

DLA must depend upon IPAs to perform many local governments audits each year. SDCL 4-11-7 requires the Auditor General to establish guidelines for IPAs to follow when they have been authorized to conduct a governmental audit. The Assistant Director of Local Government Assistance has the responsibility to review and evaluate the quality of audit reports these IPAs are doing.

A report review (also called a desk review) is always performed before accepting the IPA's report. This review covers the presentation of the financial statements and notes thereto, the independent auditor's report on those financial statements, the reports required by Government Auditing Standards, and any reports required by the federal Single Audit Act and Uniform Guidance. The results of the report review are always communicated to the IPA before final audit reports are accepted for filing.

### ***State Government:***

Some of the smaller boards and commissions are audited by IPAs. These audits are incorporated into the statewide audit report, where applicable.

SDCL 4-11-7 requires DLA to approve IPAs to conduct audits of state agencies and to approve the audit reports before the final audit report is issued. DLA's approval process for small state agencies is limited to approving the IPA and draft report. The approval process for major state operations includes approving the IPA and draft report and reviewing the working papers that support the audit. Working papers of the major state operations are reviewed because they have a significant impact on the statewide audit report. Working papers relating to small state agencies are reviewed only when the review of the draft report indicates a potential problem.

## **Who audits DLA?**

Government auditing standards require a peer review of the quality of work done by DLA at least once every three years. Auditors from other states and the federal government through a program administered by the National State Auditors Association perform this review. The report issued as a result of the review meets the requirements of the Generally Accepted Government Auditing Standards of the General Accounting Office and the Generally Accepted Auditing Standards of the American Institute of Certified Public Accountants.