

State of SD FY16 Single Audit – Audit Findings – Summary

Department of Revenue

Finding No. 2016-001 (Page 246 and 271)

Internal controls were not adequate to ensure the transfers to the Ethanol Infrastructure Incentive Fund and the Revolving Economic Development and Initiative Fund were made prior to production incentive payments as required by SDCL 10-47B-164.

Department of Transportation

Finding No. 2016-002 (Page 247 and 271)

Internal controls were not adequate to ensure compliance with federal reporting requirements.

Finding No. 2016-003 (Page 248 and 272)

Written procedures were not in place for determining the allowability of costs and cash management.

Department of Education

Finding No. 2016-004 (Page 249 and 272)

Subrecipient monitoring of payments made to Twenty-First Century Community Learning Centers (21st CCLC) grant subrecipients was inadequate.

Department of Social Services

Finding No. 2016-005 (Page 252 and 273)

Specialty surgical hospital payment methodology and rates were not clearly stated in the State Plan.

Finding No. 2016-006 (Page 254 and 273)

Target amounts for Medicare Critical Access and Medicaid Access Critical hospitals were not set in accordance with the State Plan.

Finding No. 2016-007 (Page 255 and 274)

The Human Services Center was overpaid due to improper calculation of per diem rates.

Department of Human Services

Finding No. 2016-008 (Page 256 and 274)

Written procedures were not in place for determining the allowability of costs and cash management.

Department of Game, Fish, and Parks

Finding No. 2016-009 (Page 257 and 274)

Written procedures were not in place for determining the allowability of costs and cash management.

Finding No. 2016-010 (Page 258 and 275)

Controls were not adequate to prevent the duplication of cash drawdowns.

Finding No. 2016-011 (Page 260 and 275)

Internal controls were not adequate to ensure compliance with federal reporting requirements.

Finding No. 2016-012 (Page 262 and 276)

Revenue from hunting and fishing licenses was used for purposes other than for the administration of the State fish and wildlife agency.

South Dakota Ellsworth Development Authority

Finding No. 2016-013 (Page 264 and 276)

Condition and Criteria:

The Organization hired a third party accountant to perform year-end accrual basis adjustments and prepare the financial statements in accordance with generally accepted accounting principles. During the audit process, we noted deferred revenue was understated by \$1,312,832.

South Dakota Housing Development Authority

Finding No. 2016-014 (Page 266 and 276)

Criteria:

The Form 50059 needs to be completed within the guidelines set forth by HUD.

Soybean Research and Promotion Council

Finding No. 2016-015 (Page 267 and 277)

Criteria:

Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Finding No. 2016-016 (Page 268 and 277)

Criteria:

Compliance with United Soybean Board (USB) regulations includes remitting funds to USB in accordance with guidelines established in the USB's Compliance Manual.

Corn Utilization Council

Finding No. 2016-017 (Page 269 and 277)

Criteria:

Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Finding No. 2016-018 (Page 269 and 277)

Criteria:

In order to achieve a high level of internal control, the functions of executing transactions, recording transactions and maintaining accountability for assets should be performed by different employees or be maintained under dual control.



***AUDITOR PREPARED
SCHEDULE OF FINDINGS
AND QUESTIONED COSTS***

**State of South Dakota
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016
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* These agencies do not receive or expend federal funds.

**State of South Dakota
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016**

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	Yes
Significant deficiencies identified?	Yes
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?	Yes

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Fish and Wildlife Cluster
	Drinking Water State Revolving Fund Cluster
	Medicaid Cluster
	Section 8 Project-Based Cluster
	Student Financial Assistance Cluster
12.401	National Guard Military Operations and Maintenance (O&M) Projects
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
20.933	National Infrastructure Investments
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.287	Twenty-First Century Community Learning Centers

93.268	Immunization Cooperative Agreements
93.563	Child Support Enforcement
93.658	Foster Care - Title IV-E
93.659	Adoption Assistance
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs - \$6,900,000

Auditee Qualified as low-risk auditee? No

DEPARTMENT OF REVENUE

CURRENT AUDIT FINDING AND RECOMMENDATIONS

State Compliance Audit Finding:

Finding No. 2016-001:

Internal controls were not adequate to ensure the transfers to the Ethanol Infrastructure Incentive Fund and the Revolving Economic Development and Initiative Fund were made prior to production incentive payments as required by SDCL 10-47B-164.

Type of Finding: Significant Deficiency

Analysis:

SDCL 10-47B-164 states:

. . . transfers from the ethanol fuel fund to the ethanol infrastructure incentive fund and the revolving economic development and initiative fund in each fiscal year shall be made before any production incentive payment is made pursuant to § 10-47B-162 in the fiscal year.

During fiscal year 2016, the Department of Revenue (DOR) made incentive payments to ethanol producers prior to transferring monies to the Ethanol Infrastructure Incentive Fund and the Revolving Economic Development and Initiative Fund. The DOR did not have effective controls and formal policies and procedures to ensure transfers were done as required and, as a result, was not in compliance with SDCL 10-47B-164.

RECOMMENDATIONS:

1. We recommend controls be implemented to ensure that future transfers to the Ethanol Infrastructure Incentive Fund and the Revolving Economic Development and Initiative Fund will be made prior to any production incentive payments.
2. We recommend formal policies and procedures be developed that provide guidance on the duties to be performed by the personnel responsible for the transfers to the Ethanol Infrastructure Incentive Fund and the Revolving Economic Development and Initiative Fund.

Views of Responsible Officials:

The Department of Revenue concurs with this finding.

DEPARTMENT OF TRANSPORTATION

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Findings:

Finding No. 2016-002:

Internal controls were not adequate to ensure compliance with federal reporting requirements.

CFDA Title: National Infrastructure Investments TIGER Discretionary Grants

CFDA Number: 20.933

Federal Award Number: FR-TII-0032-15-01-00

Federal Award Year: 2015

Federal Agency: U.S. Department of Transportation, Federal Railroad Administration

Type of Finding: Significant Deficiency

Category of Finding: Reporting

Analysis:

The Uniform Administrative Requirements codified at 2 CFR 200 require an entity to establish and maintain effective internal control in order to provide reasonable assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. The Department did not have adequate controls in place to ensure compliance with the reporting compliance requirement. As a result the Department may not be able to detect and correct noncompliance in a timely manner.

The quarterly report required by the program was prepared and submitted by the Transportation Specialist. The report was not reviewed or approved by program management or other knowledgeable personnel. Secondary review of reports prior to submission ensures the accuracy and timeliness of reporting. While no material variances were noted for the quarterly reports submitted for the program during state fiscal year 2016, the potential effects of the lack of a secondary review of the report include inaccurate financial reporting, late or missed reports, and noncompliance with program requirements.

RECOMMENDATION:

1. We recommend a documented review and approval be performed by a qualified staff member prior to submission of quarterly financial reports.

Views of Responsible Officials:

DOT agrees with the finding, the procedure for submitting Federal reports should include supervisors' approval. The procedure has been changed to include supervisors' approval on submission of federal financial reports.

DEPARTMENT OF TRANSPORTATION

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Findings:

Finding No. 2016-003:

Written procedures were not in place for determining the allowability of costs and cash management.

CFDA Title: National Infrastructure Investments TIGER Discretionary Grants

CFDA Number: 20.933

Federal Award Number: FR-TII-0032-15-01-00

Federal Award Year: 2015

Federal Agency: U.S. Department of Transportation, Federal Railroad Administration

Type of Finding: Noncompliance

Category of Finding: Allowable Costs/Cost Principles and Cash Management

Analysis:

The Uniform Administrative Requirements codified at 2 CFR 200 require the recipient of federal funds to have written procedures to implement the requirements of 200.305 Payment (200.302(6)) and for determining allowability of costs in accordance with Subpart E – Cost Principles and the terms and conditions of the Federal award (200.302(7)). The Department of Transportation did not have written procedures in place to meet the requirements of these subparts of the Uniform Administrative Requirements. The lack of written procedures may result in staff not having the information relating to these compliance requirements necessary to ensure the Department is able to detect and correct noncompliance in a timely manner.

RECOMMENDATION:

2. We recommend procedures be formally documented for determining the allowability of costs and cash management.

Views of Responsible Officials:

DOT agrees with the finding, established procedures need to be documented. The Railroad office is drafting these procedures.

CURRENT AUDIT FINDING AND RECOMMENDATIONS

Federal Compliance Audit Finding:

Finding No. 2016-004:

Subrecipient monitoring of payments made to Twenty-First Century Community Learning Centers (21st CCLC) grant subrecipients was inadequate.

CFDA Title: Twenty-First Century Community Learning Centers (21st CCLC)

CFDA Number: 84.287

Federal Award Number: S287C140042, S287C150042

Federal Award Year: 2014, 2015

Federal Agency: Department of Education

Type of Finding: Material Weakness

Category of Finding: Subrecipient Monitoring

Analysis:

Under 21st CCLC, the Department of Education makes competitive subawards to eligible Local Educational Agency's (LEAs) or other public or private entities to carry out before-school or after-school activities that advance student academic achievement. The subawards are for a five year funding period.

2 CFR 200.331 states that "All pass-through entities must: [...] "(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward;". In order to achieve fiscal monitoring, the Department policy is to perform fiscal monitoring visits in year two of the subrecipient's program funding. The fiscal monitoring visit is the only direct review of a subrecipient's 21st CCLC program expenditure documentation. There were eight subrecipients in year two of program funding during Fiscal Year (FY) 2016, but at June 30, 2016, no fiscal monitoring visits had been performed.

2 CFR 200.331 also states that "All pass-through entities must: [...] "(b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring...". These subrecipient risk evaluations are most effective when performed prior to awarding funds to subrecipients for the purposes of determining the appropriate monitoring activities; however the Department did not perform risk evaluations until 10 and 22 months into program funding for FY 2015 and FY 2016 subawards, respectively.

The Department of Education has established a monitoring policy that includes desk reviews of LEAs. These desk reviews include an examination of LEAs' ledger accounting reports and randomly selected supporting documentation of all federal funding received by the LEAs to verify funding is spent in compliance with the requirements of the various programs. The Department performed risk analysis procedures and selected 16 LEAs for desk reviews of FY2015 data, but at June 30, 2016, no desk audits had been completed; furthermore, at December 31, 2016 only three desk audits had been completed.

Inadequate fiscal monitoring of subrecipient payments could result in potential violations of federal grant requirements and an increased risk of fraud, waste, and abuse of grant funds.

DEPARTMENT OF EDUCATION
(Continued)

RECOMMENDATIONS:

1. We recommend the fiscal monitoring visits be performed in a timely manner in accordance with Department policy.
2. We recommend subrecipient risk evaluations be performed prior to awarding funds to subrecipients for the purpose of determining appropriate monitoring activities.
3. We recommend the desk reviews be performed in a timely manner.

Views of Responsible Officials:

The Department of Education (DOE) monitors the 21st CCLC grantees to meet the requirements of 2 CFR 200.331(d). DOE program specialists visit each site annually to observe the programs to ensure programming elements and the activities described in the application are in place. During these visits technical assistance is provided to the grantees and any deficiencies are noted. In year 3 of the sub-recipient's project the DOE program specialists do an extensive review to ensure the project is functioning as planned and approved in the application. The program staff discusses areas of concern with the fiscal staff prior to and after the site visits. While onsite the program staff will look into areas of concern pointed out by the fiscal staff. If the program staff note items of fiscal concern while onsite they are reported to fiscal staff to look into compliance issues and offer technical assistance as necessary. To more clearly address the auditor's concerns, additional fiscal items will be added to the program site review check list.

The DOE sponsors a 21st CCLC technical assistance conference each summer and new grantees are required to attend a session on the fiscal requirements for the 21st CCLC program. A DOE fiscal program specialist provides technical assistance to the sub grantees in this session by going over the fiscal requirements and providing sample forms.

The DOE implemented a new Grants Management System (GMS) in FY 2016 that includes the 21st CCLC program applications and reimbursement process. The first year implementation period consumed a significant amount of DOE staff time to set up the new electronic application process and do the testing needed to ensure the proper function of the system. The new GMS will improve the DOE's ability to administer and monitor the 21st CCLC program. Due to the staff time required to set up the new system properly and effectively, the fiscal monitoring visits were delayed.

The DOE disagrees with the auditor's finding regarding risk evaluations. The DOE did evaluate subrecipient risk prior to awarding funds in accordance with 2 CFR 200.331(b). This process included a Financial Management Questionnaire in the grant application that all new grant applicants had to complete and submit. Prior to the awards, the applicants were evaluated for risk in FY 2015 and FY 2016 based on the answers to the questions in this form and the applicant's audit report, if applicable. The DOE used this analysis to determine the risk of the applicant's capacity to operate a grant, and to offer technical assistance in areas of potential deficiencies. These risk assessments were discussed by DOE staff and taken into consideration during the process of determining successful grant applicants. The audit finding stating that risk evaluations that were not performed until 10 and 22 months into the program funding is incorrectly referring to a process that was not implemented until FY 2017. Even though the DOE did not use the new formalized tool, described in the next paragraph, the DOE did perform a subrecipient risk evaluation for FY 2015 and FY 2016 in compliance with 2 CFR

DEPARTMENT OF EDUCATION
(Continued)

200.331(b). The DOE inadvertently provided the auditor with the current procedures instead of the procedures in place during the period being audited. Going forward, the DOE will document the results of the evaluations, scoring sheets, and discussions, and retain the records for audit purposes based on the FY 2017 procedures.

The DOE was performing timely LEA reviews prior to FY 2016. Implementation of a new grants management system and other extraordinary events caused a delay in LEA reviews for FY 2016.

The DOE monitors LEAs annually through the use of the GMS. The GMS includes business rules that ensure fiscal requirements are met and followed. LEA subrecipients must provide program information and detailed program budgets to the DOE annually in their applications. The applications are reviewed by both DOE program and fiscal staff to ensure the program and fiscal requirements are being met. The proposed budgets are reviewed to ensure the costs are reasonable, necessary, allocable, and allowable under the program.

DEPARTMENT OF SOCIAL SERVICES

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Findings:

Finding No. 2016-005:

Specialty surgical hospital payment methodology and rates were not clearly stated in the State Plan.

CFDA Title: Medical Assistance Program

CFDA Number: 93.778

Federal Award Number: 1505SD5MAP, 1605SD5MAP

Federal Award Year: 2015, 2016

Federal Agency: Department of Health and Human Services (DHHS)

Type of Finding: Significant Deficiency

Category of Finding: Allowable Costs

Analysis:

Internal controls were inadequate to ensure that methodologies and rates of payment for all services were clearly stated in the State Plan.

42 CFR Part 447, Subpart B provides general provisions for payment methods. 42 CFR 447.201, under Subpart B, states that:

State plan requirements.

(a) A State plan must provide that the requirements in this subpart are met.

(b) The plan must describe the policy and the methods to be used in setting payment rates for each type of service included in the State's Medicaid program.

A sample of 80 paid Medicaid claims was tested in FY2016. For one claim out of the eighty claims tested, conflicting and unclear payment methodology was noted in the State Plan. This claim was an inpatient claim paid to a specialty surgical hospital and was the only claim in the sample for specialty surgical services.

Attachment 4.19A of the State Plan states that "Specialized Surgical Hospitals are reimbursed on a per diem basis equal to twice the per diem rate allowable for swing-bed hospitals as established in Attachment 4.19-D – Other, Provision 10."

Attachment 4.19B of the State Plan states that "Specialized Surgical Hospitals will be reimbursed on the same basis as ambulatory surgical centers, as determined by the Department, for outpatient services."

The methodology for payment of the specialty surgical hospital claim tested was in agreement with methodology used for ambulatory surgical centers, as noted in Attachment 4.19B. The payment amount was calculated as Group 5 procedures under ambulatory surgical methodology listed under Administrative Rule of South Dakota 67:16:28:05 using 66% of usual and customary charges. However, room and board was paid on the claim at a rate of 61% of the room and board charges and this rate was unable to be located in the State Plan. This type of claim is infrequent; however, the dollar value of these claims is high when compared to the average dollar amount of an inpatient claim.

DEPARTMENT OF SOCIAL SERVICES
(Continued)

The control deficiency results in the potential risk of specialty surgical hospital claims being disallowed by DHHS because the rate of payment is not clearly shown or conflicts with the methodology approved in the State Plan. Specialty surgical hospital claims are high-dollar value claims and could be material to the Medicaid program if disallowed.

RECOMMENDATION:

1. We recommend that the Department of Social Services implement internal controls to ensure that payment rates and methodologies are clearly identified in the State Plan.

Views of Responsible Officials:

DSS concurs with the finding.

DEPARTMENT OF SOCIAL SERVICES

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Findings:

Finding No. 2016-006:

Target amounts for Medicare Critical Access and Medicaid Access Critical hospitals were not set in accordance with the State Plan.

CFDA Title: Medical Assistance Program

CFDA Number: 93.778

Federal Award Number: 1605SD5MAP

Federal Award Year: 2016

Federal Agency: Department of Health and Human Services (DHHS)

Type of Finding: Noncompliance

Category of Finding: Allowable Costs

Analysis:

Attachment 4.19A of the State Plan states that “The agency will increase reimbursements to South Dakota hospitals classified as Medicare Critical Access or Medicaid Access Critical by 1.65% for claims with dates of service on and after July 1, 2015.”

Medicare Critical Access and Medicaid Access Critical hospitals are paid for inpatient claims under the Diagnostic Related Group (DRG) Methodology. Under this methodology, the amount paid to hospitals is calculated by multiplying the target amount for a hospital by the DRG weight for the procedures performed plus the hospital’s capital costs multiplied by the length of stay. Updated target amounts for these hospitals were improperly entered into the MMIS system. The target amounts were updated by a percentage that was less than the 1.65% rate approved by the Legislature and contained in the State Plan. This error resulted in total underpayment of \$37,519.92 to Medicare Critical Access and Medicaid Access Critical hospitals in FY2016.

RECOMMENDATION:

2. We recommend that the Department of Social Services (DSS) comply with the State Plan and that DSS pay the hospitals for the amounts underpaid.

Views of Responsible Officials:

DSS concurs with the finding.

DEPARTMENT OF SOCIAL SERVICES

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Findings:

Finding No. 2016-007:

The Human Services Center was overpaid due to improper calculation of per diem rates.

CFDA Title: Medical Assistance Program

CFDA Number: 93.778

Federal Award Number: 1505SD5MAP, 1605SD5MAP

Federal Award Year: 2015, 2016

Federal Agency: Department of Health and Human Services (DHHS)

Type of Finding: Significant Deficiency, Noncompliance

Category of Finding: Allowable Costs

Questioned Costs: \$147,522.19

Analysis:

Part II of Attachment 4.19D of the State Plan provides the methodology of reimbursement for State-operated Nursing Facilities and Intermediate Care Facilities for the Mentally Retarded. It states that "One per diem rate shall be established for a facility and paid for every Medicaid-eligible resident in that facility" and "Per diem rates shall be calculated on the basis of actual occupancy. Occupancy is defined as actual physical resident days." Information from Medicaid Cost Reports are used by the Department of Social Services (DSS) to calculate per diem rates for the Human Services Center.

Errors in the formulas on the DSS prepared worksheets excluded one quarter's worth of institution days from the denominator of the calculation used to determine percentage of geriatric/nursing home days compared to total institution days. This percentage is then used in the calculations of indirect costs. Total costs are divided by resident days to determine the per diem rate. The exclusion of one quarter from the denominator resulted in an overstated indirect cost percentage, which in turn resulted in an overstated per diem rate. Total overpayments of \$147,522.19 were made to the Human Services Center in FY2016.

RECOMMENDATION:

3. We recommend that the Department of Social Services implement procedures to ensure proper calculation of per diem rates for State institutions.

Views of Responsible Officials:

DSS concurs with the finding.

DEPARTMENT OF HUMAN SERVICES

CURRENT AUDIT FINDING AND RECOMMENDATION

Federal Compliance Audit Finding:

Finding No. 2016-008:

Written procedures were not in place for determining the allowability of costs and cash management.

CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States

CFDA Number: 84.126

Federal Award Number: H126A160062 & H126A160084

Federal Award Year: 2016

Federal Agency: Department of Education

Type of Finding: Noncompliance

Category of Finding: Allowable Costs/Cost Principles and Cash Management

Analysis:

The Uniform Administrative Requirements codified at 2 CFR 200 require the recipient of federal funds to have written procedures to implement the requirements of 200.305 Payment (200.302(6)) and for determining allowability of costs in accordance with Subpart E – Cost Principles and the terms and conditions of the Federal award (200.302(7)). The Department of Human Services did not have written procedures in place to meet the requirements of these subparts of the Uniform Administrative Requirements. The lack of written procedures may result in staff not having the information relating to these compliance requirements necessary to ensure the Department is able to detect and correct noncompliance in a timely manner.

RECOMMENDATION:

We recommend procedures be formally documented for determining the allowability of costs and cash management.

Views of Responsible Officials:

The Department of Human Services concurs with this finding.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Findings:

Finding No. 2016-009:

Written procedures were not in place for determining the allowability of costs and cash management.

CFDA Title: Fish and Wildlife Cluster: Sport Fish Restoration Program and Wildlife Restoration and Basic Hunter Education

CFDA Number: 15.605 and 15.611

Federal Award Number: F14AP00648, F15AF00070, F15AF00081, F15AF00082, F15AF00168, F15AF00169, F15AF00377, F15AF00377-001, F15AF00377-002, F15AF00377-003, F15AF00761-002, F15AP00423, F15AP00424, F15AP00559, F16AF00024 and F16AF00026

Federal Award Year: 2015 and 2016

Federal Agency: US Fish and Wildlife Services

Type of Finding: Noncompliance

Category of Finding: Allowable Costs/Cost Principles and Cash Management

Analysis:

The Uniform Administrative Requirements codified at 2 CFR 200 require the recipient of federal funds to have written procedures to implement the requirements of 200.305 Payment (200.302(6)) and for determining allowability of costs in accordance with Subpart E – Cost Principles and the terms and conditions of the Federal award (200.302(7)). The Department of Game, Fish and Parks did not have written procedures in place to meet the requirements of these subparts of the Uniform Administrative Requirements. The lack of written procedures may result in staff not having the information relating to these compliance requirements necessary to ensure the Department is able to detect and correct noncompliance in a timely manner.

RECOMMENDATION:

1. We recommend procedures be formally documented for determining the allowability of costs and cash management.

Views of Responsible Officials:

The South Dakota Department of Game, Fish & Parks does not concur with the finding.

The Department's state FY2016 audit of federal funds specifically focused on sportfish and wildlife restoration funds awarded by the US Fish & Wildlife Service (USFWS). Shortly after enactment of the federal uniform grant guidance, the US Fish & Wildlife Service began creating an online grant guidance website (fawiki.fws.gov) to establish uniform grant reporting, monitoring, and management across all state fish & wildlife agencies in the country. Access and extensive training on the resources contained within the USFWS wiki site is provided to state personnel throughout the department. Creation of written procedures at the state level that vary from procedures that are already contained in the USFWS's wiki site may conflict with the federal awarding agency's efforts to create uniform grant processes across all state fish and wildlife departments. The Department would agree to establish a written policy formally directing agency staff to the USFWS wiki site, but does not feel the absence of such a directive warrants the audit finding.

DEPARTMENT OF GAME, FISH AND PARKS

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Findings:

Finding No. 2016-010:

Controls were not adequate to prevent the duplication of cash drawdowns.

CFDA Title: Wildlife Restoration and Basic Hunter Education

CFDA Number: 15.611

Federal Award Number: F15AF00387

Federal Award Year: 2014

Federal Agency: U.S. Fish and Wildlife Service

Type of Finding: Significant Deficiency

Category of Finding: Cash Management

Questioned Costs: \$230,748.90

Analysis:

31 CFR 205.33 states:

How are funds transfers processed? (a) A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102

Three vouchers relating to federal grant expenditures totaling \$230,748.90 were paid by the Department of Game, Fish and Parks in state fiscal year 2016. The Department erroneously drew down federal funds to recover these costs from both their fiscal year 2015 and 2016 wildlife research grants. As a result, federal funds were drawn down twice against two different federal awards resulting in questioned costs of \$230,748.90.

RECOMMENDATION:

2. We recommend controls be strengthened to ensure the Department that their federal drawdowns are proper.

Views of Responsible Officials:

The SD Department of Game, Fish & Parks agrees with the three expense vouchers identified as questioned costs in audit finding 2016-010.

However, the Department feels that further details regarding the specific vouchers identified in the audit finding should have been included in the Analysis and use of the term "erroneously" to describe the draw down of federal wildlife restoration funds in FY2016 overstates the matter.

DEPARTMENT OF GAME, FISH AND PARKS
(Continued)

For clarification, in the fall of 2015 the retirement of the Department's sole grant accountant led to a staff transition. At that time the Department also made a generally accepted accounting procedure (GAAP) policy change. The Department changed its expenditure calculations for federal draw downs procedure from accrual based accounting to cash based accounting. As identified in the audit finding, the Department's first federal fund drawdown request under the cash based accounting procedure included three expense vouchers with federally eligible grant expenditures totaling \$230,748.90 that were previously reimbursed during FY2016.

Due to the conversion from accrual based accounting to cash based accounting, the Department incorrectly drew down federal funds to recover these costs from both federal fiscal year 2015 and 2016 wildlife research grants.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Findings:

Finding No. 2016-011:

Internal controls were not adequate to ensure compliance with federal reporting requirements.

CFDA Title: Fish and Wildlife Cluster: Sport Fish Restoration Program and Wildlife Restoration and Basic Hunter Education

CFDA Number: 15.605 and 15.611

Federal Award Number: F14AP00648, F15AF00070, F15AF00081, F15AF00082, F15AF00168, F15AF00169, F15AF00377, F15AF00377-001, F15AF00377-002, F15AF00377-003, F15AF00761-002, F15AP00423, F15AP00424, F15AP00559, F16AF00024 and F16AF00026

Federal Award Year: 2015 and 2016

Federal Agency: US Fish and Wildlife Services

Type of Finding: Significant Deficiency

Category of Finding: Reporting

Analysis:

The Uniform Administrative Requirements codified at 2 CFR 200 require an entity to establish and maintain effective internal controls in order to provide reasonable assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. The Department did not have adequate controls in place to ensure compliance with the reporting compliance requirement. As a result, the Department may not be able to detect and correct noncompliance.

The SF-425 – Financial Status Reports were prepared by the accountant. The accountant provided the reports to the Federal Aid Coordinator to be submitted. The reports were not reviewed or approved by program management or other knowledgeable personnel.

The Game, Fish and Parks (GF&P) Data Specialist and Biologist provided the Federal Aid Coordinator with GF&P license sales data for the License Certification Reports (forms 3-154A and 3-154B). The Federal Aid Coordinator completed the reports and submitted them to US Fish and Wildlife Services. The reports were not reviewed or approved by program management or other knowledgeable personnel.

While no material variances were noted for the reports submitted for the program during state fiscal year 2016, the lack of a secondary review of the reports increased the risk of inaccurate financial reporting and noncompliance with program requirements.

RECOMMENDATION:

3. We recommend a documented review and approval of final financial reports be performed by a qualified staff member prior to submission.

DEPARTMENT OF GAME, FISH AND PARKS
(Continued)

Views of Responsible Officials:

The SD Department of Game, Fish & Parks does recognize the benefits of establishing redundant internal financial processes including the generation of SF425 financial status reports and the annual hunting/fishing License Certification Reports.

However, when considering that this redundancy is not required under the federal uniform grant guidance and not required by the federal awarding agency (US Fish & Wildlife Service) the SD Department of Game, Fish & Parks does not concur with the formal audit finding.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Federal Compliance Audit Findings:

Finding No. 2016-012:

Revenue from hunting and fishing licenses was used for purposes other than for the administration of the State fish and wildlife agency.

CFDA Title: Sport Fish Restoration Program & Wildlife Restoration and Basic Hunter Education

CFDA Number: 15.605 & 15.611

Federal Award Number: N/A

Federal Award Year: N/A

Federal Agency: U.S. Fish and Wildlife Service

Type of Finding: Noncompliance

Category of Finding: Special Tests and Provisions

Analysis:

50 CFR 80.10 states:

States acting through their fish and wildlife agencies are eligible for benefits of the Acts only if they pass and maintain legislation that (c) Requires that revenue from hunting and fishing licenses be (2) Used only for administration of the State fish and wildlife agency, which includes only the functions required to manage the agency and the fish- and wildlife-related resources for which the agency has authority under State law.

50 CFR 80.11 states:

A State becomes ineligible to receive the benefits of the Acts if it (c) Diverts hunting and fishing license revenue from (2) Purposes other than the agency's administration.

The State's annual general appropriations act requires a transfer from the Department of Game, Fish and Parks Fund, which is used to account for revenue from hunting and fishing licenses, to the State's General Fund for radio communications operations. This is a necessary function for the Department of Game, Fish and Parks (GF&P) to manage the agency and fish and wildlife related resources. However, the amount required to be transferred was not in proportion to the Department's usage of the radio communications operations. In addition, the transfer was made based on budgeted amounts rather than actual costs.

The fiscal year (FY) 2016 required transfer calculation allocated the budgeted costs using two methods:

1. For general operational budgeted costs relating to radio communications the GF&P was allocated the percentage of budgeted costs based on the prior year's usage of the radio communications system. This was determined to be a fair and equitable method. The Department's share was 5.3 percent.
2. The GF&P was allocated one third of the budgeted costs for a lease payment. This was determined inappropriate as it was not an equitable method for allocating costs. The GF&P should have used the allocation method discussed in 1. above. As a result, the

DEPARTMENT OF GAME, FISH AND PARKS
(Continued)

GF&P was required to transfer \$234,058 too much to the General Fund and we consider this a diversion of funds as defined by 50 CFR 80.11.

In FY 2016, actual costs for the operations of the radio communications operations were \$306,924 less than the amount budgeted which is what the transfer was based on. This was not factored into the FY 2017 required transfer and thus resulted in an additional diversion of \$16,267. Thus, the total diversion relating to FY 2016 was \$250,325 based on the Department's actual usage of the system.

This method of allocating costs appears to have been done for the time periods from FY 2013 through FY 2015 and thus funds appear to have been diverted from the agency's administration for those years as well. In addition, the FY 2017 and FY 2018 required transfers as approved in the general appropriations acts also allocated costs in a similar method.

RECOMMENDATIONS:

4. We recommend the transfer be computed using an allocation method that is based on actual usage. We also recommend that the allocation take into account the difference between budgeted amounts and actual costs.
5. We recommend the funds diverted from the Department of Game, Fish and Parks Fund to date be calculated and returned to the Department of Game, Fish and Parks Fund.
6. We recommend the FY 2017 and FY 2018 transfers required by the general appropriations acts be recalculated using an equitable method and the required transfers be amended to reflect the revised calculation.

Views of Responsible Officials:

The SD Department of Game, Fish & Parks and the Bureau of Finance and Management believes allocating lease payment costs evenly to the users of the system is appropriate as these fixed costs are not usage dependent.

SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY

The following was issued under a separate audit of the Ellsworth Development Authority by Ketel Thorstenson, LLP.

CURRENT AUDIT FINDING AND RECOMMENDATION

Financial Statement Audit Finding:

Finding No. 2016-013:

Material Weakness - Audit Adjustment

Condition and Criteria:

The Organization hired a third party accountant to perform year-end accrual basis adjustments and prepare the financial statements in accordance with generally accepted accounting principles. During the audit process, we noted deferred revenue was understated by \$1,312,832.

Cause and Effect:

The spreadsheet used to track REPI property was not reconciled to the general ledger. It included property purchased after year-end; however, this total was used in the deferred revenue calculation, resulting in the understatement. This is purely an error in a year-end calculation of revenue. It is not a reflection of how the REPI property is tracked, and is not indicative of any compliance issues.

RECOMMENDATION:

We suggest this spreadsheet be saved by year in order to ensure a proper cut-off for deferred revenue calculations. Although a cumulative spreadsheet is necessary to properly track the REPI activity under the five-year program, saving a static copy at each fiscal year-end would prevent any inadvertent errors in the timing of revenue recognition.

Views of Responsible Officials:

- (1) The REPI Program is designed and funded on a five-year utilization cycle; as such, SD EDA tracks REPI allowable transaction costs to include property closings as they occur and not based on a specific Fiscal Year. SDEDA is in full compliance with the DOD REPI Program and South Dakota GOED matching grant agreements; and has been cited on multiple occasions as a benchmark of success at both the DOD and US Air Force levels.
- (2) In this case, the property closing involved over 1700 acres, a three-year time span of actions and allowable transaction costs, and \$1.32M in final closing costs. It was clearly intended, by both SDEDA and the property owners, to close on this ranchland in mid-June 2016. This anticipated closing date was further evidenced by the initial transfer of \$900K on 13 Jun 16 and the subsequent transfer of \$440K on 14 Jun 16 from the SDEDA REPI Savings Account to the singular SDEDA Checking Account. Two principal delays resulted and were based on requests from either the owners or the title company. For instance, the title company initially requested a written check for the closing; and subsequently requested an EFT which was effected on 7 July 16. The property closed on 8 July 16.

SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY
(Continued)

- (3) In terms of internal controls and tracking, SDEDA employs a "REPI Program Settlement Spreadsheet". This spreadsheet is frequently updated and intended to track property identification, ownership, allowable costs, legal requirements, program level transactions, and overall funds involved; it is not designed or used to track funds on an annual basis. Our accountant simply failed to accurately enter this property closing in the correct Fiscal Year period.

To summarize, the error identified by the auditors related to the timing of the purchase of 1,700 acres of land under the DOD REPI program. We had fully anticipated the closing would be completed in mid-June 2016, but there were unforeseen delays causing the closing to be completed instead on July 8, 2016. The closing of this transaction across multiple fiscal years caused an error in revenue recognition. There was no noncompliance with the REPI program as this program is funded on a five-year utilization cycle. To ensure this type of error does not re-occur, management and accountant will be diligent in reviewing transactions that may span fiscal year-ends to ensure proper reporting in the correct accounting period.

Of note, SDEDA works closely and regularly with our accountant. However, SDEDA was not informed of this potential issue or finding, until 7 October 2016 when we received the Preliminary Audit Draft from the auditor. Management is confident this is not a compliance issue and that no findings exist within the REPI program.

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY

The following was issued under a separate audit of the South Dakota Housing Development Authority by Eide Bailly, LLP.

CURRENT AUDIT FINDING AND RECOMMENDATION

Federal Compliance Audit Finding:

Finding No. 2016-014:

Housing Assistance Payments

U.S. Department of Housing and Urban Development-Section 8 Voucher Cluster CFDA#14.182
Compliance Requirement – Eligibility
Compliance Finding

Criteria:

The Form 50059 needs to be completed within the guidelines set forth by HUD.

Condition:

As part of our testing for eligibility requirements, we selected a sample of 60 tenants receiving Housing Assistance Payments (HAP). Of the 60, one tenant assistance determination was calculated by the management agent using the incorrect income that was certified.

Cause:

Incorrect income was used in calculating the assistance to be received on the 50059.

Effect:

Not using the correct information provided could cause the HAP payment to be incorrectly calculated.

Questioned Costs:

Overpayment of \$737 on one tenant.

Context/Sampling:

A non-statistical sample of 60 tenants out of 4,998 tenants were selected for eligibility testing, which accounted for \$170,928, of \$23,612,168 of federal program expenditures.

Repeat Finding from Prior Year: No

RECOMMENDATION:

The Authority should provide training for owner/agents preparing Form 50059. In addition, the Authority may wish to expand its testing of the Form 50059 for owners/agents which have had problems noted in the past.

Views of Responsible Officials:

Management agrees with the finding.

SOYBEAN RESEARCH AND PROMOTION COUNCIL

The following was issued under a separate audit of the Soybean Research & Promotion Council by Eide Bailly, LLP.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Financial Statement Audit Findings:

Finding No. 2016-015:

Preparation of Full Disclosure Financial Statements and Material Adjustments

Criteria:

Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition:

The Council does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we proposed material audit adjustments that would not have been identified as a result of the Council's existing internal controls. We were also requested to draft the financial statements and accompanying notes to the financial statements.

Cause:

The Council has limited staff. They cannot justify having an individual on staff with the proper accounting skills necessary for preparing the draft financial statements and accompanying notes to the financial statements.

Effect:

Material audit adjustments were needed at year-end. Inadequate controls over financial reporting of the Council could result in the likelihood that the Council would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

RECOMMENDATION:

1. While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial accounting and reporting requirements of the Council as well as changes in these requirements.

Views of Responsible Officials:

Management will review the year-end adjustments. Since it is not cost-effective for an organization of our size to have an individual on staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our financial statements as part of the annual audit.

SOYBEAN RESEARCH AND PROMOTION COUNCIL
(Continued)

Finding No. 2016-016:

Collecting and Remitting Assessments

Criteria:

Compliance with United Soybean Board (USB) regulations includes remitting funds to USB in accordance with guidelines established in the USB's Compliance Manual.

Condition:

We identified an error in one of the Council's quarterly remittances to USB and proposed an audit adjustment that was not identified as a result of the Council's existing internal controls.

Cause:

The Council has a process in place for the review of quarterly remits to the USB, but there was an error in one of the reconciliations that was not identified and corrected as part of the review process.

Effect:

An audit adjustment was needed at year-end to record additional payables to USB due to the error in the reconciliation. Inadequate review over significant transaction cycles could adversely affect the Council's ability to detect and correct misstatements to the financial statements on a timely basis.

RECOMMENDATION:

2. We recommend that management review its current processes and procedures to ensure that proper oversight is occurring at a level sufficient to help mitigate risks associated with errors in future remittances.

Views of Responsible Officials:

We recognize that oversight and review of significant reconciliations, including documentation of the performance of oversight and review processes, is an important control in detecting and correcting misstatements to the financial statements.

CORN UTILIZATION COUNCIL

The following was issued under a separate audit of the Corn Utilization Council by Eide Bailly, LLP.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Financial Statement Audit Findings:

Finding No. 2016-017:

Preparation of Financial Statements

Criteria:

Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition:

The Council does not have an internal control system designed to provide for the preparation of the financial statements being audited. We were requested to draft the financial statements and accompanying notes to the financial statements. We also identified a material adjustment during the audit relating to checks written, but not issued by year end due to the timing of when the second signature was obtained.

Cause:

The Council has limited staff. They cannot justify having an individual on staff with the proper accounting skills necessary for preparing the draft financial statements and accompanying notes to the financial statements.

Effect:

This deficiency results in a reasonable possibility that the Council would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

RECOMMENDATION:

1. While we recognize that this condition is not unusual for an organization of your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial accounting and reporting requirements of the Council as well as changes in these requirements.

Views of Responsible Officials:

Since it is not cost-effective for an organization of our size to have an individual on staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our financial statements as part of the annual audit.

Finding No. 2016-018:

Lack of Proper Segregation of Duties for the Revenue and Expenditure Functions

Criteria:

In order to achieve a high level of internal control, the functions of executing transactions, recording transactions and maintaining accountability for assets should be performed by different employees or be maintained under dual control.

CORN UTILIZATION COUNCIL
(Continued)

Condition:

The Council did not have an internal control system to allow for the proper segregation of duties in certain areas of the accounting function.

Cause:

The Council has limited staff and cannot justify hiring an additional individual in order to better segregate accounting duties.

Effect:

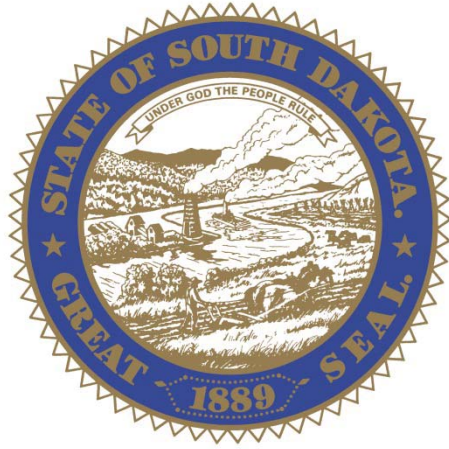
Proper segregation of duties helps to minimize the chance of undetected errors or defalcations, since the work of one person is reviewed by the work of another.

RECOMMENDATION:

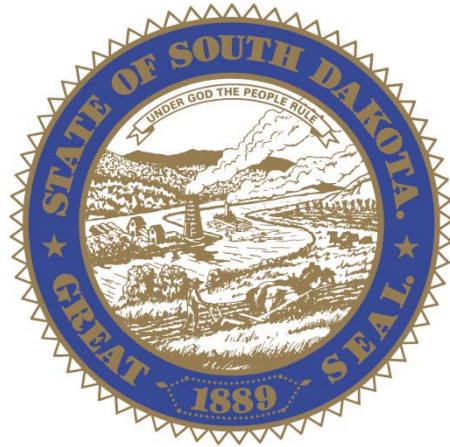
2. Due to the small size of the office, the Council is limited in the options available to them. Under this situation, the most effective control is management and the board's oversight and knowledge of matters relating to the operations of the Council.

Views of Responsible Officials:

We have evaluated the segregation of duties over the revenue function and over the expenditure function. Management and the board of directors will exercise oversight of the accounting functions, which we believe mitigates the risk of material misstatement to an acceptable level.



***AUDITEE PREPARED
CORRECTIVE ACTION PLAN
AND SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS***



***AUDITEE PREPARED
CORRECTIVE ACTION PLAN
AND SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS***

**State of South Dakota
Auditee Prepared Corrective Action Plan
For the Fiscal Year Ended June 30, 2016**

DEPARTMENT OF REVENUE

Finding No. 2016-001:

Corrective Action Plan: The Department of Revenue's Deputy Director of Finance and Internal Controls has created a checklist of statutory transfer requirements and has added the transfers found in SDCL 10-47B-164 to this list, which is used by the finance staff.

A written policy will be formalized to ensure transfers are made in a timely manner. This policy will also require that department finance staff will verify the balance of the ethanol fuel fund to ensure no payments are made unless there is a balance of at least \$950,000 before releasing the incentive payment vouchers and processing for payment.

Contact Person: John T. Hanson, Deputy Director of Finance and Internal Controls

Anticipated Completion Date: Implemented

DEPARTMENT OF TRANSPORTATION

Finding No. 2016-002:

Corrective Action Plan: The financial reports are completed and then sent to the Supervisor for review and comments. The supervisor reviews and approves the financial report then it is submitted. The report, supporting documentation and approval from the supervisor are filed in the project file within DOT.

The procedure for compiling information for federal reports:

- Reconcile project reports from Negotiated program (Internal Audits program), Project checker file (internal Finance program) and Railroad Office spreadsheet. Once the reconciliation has been done of the three reports, the financial federal report is completed. The financial report along with supporting documentation is sent to Supervisor for review and approval. After Supervisor approval the federal financial report is submitted.

Contact Person: Jack Dokken, Administrator Air, Rail and Transit office & Misty Siedschlaw, Transportation Specialist

Anticipated Completion Date: Implemented

Finding No. 2016-003:

Corrective Action Plan: In the process of drafting written procedures.

Contact Person: Misty Siedschlaw, Transportation Specialist

Anticipated Completion Date: April 30, 2017

DEPARTMENT OF EDUCATION

Finding No. 2016-004:

Recommendation 1:

Corrective Action Plan: Since July 1, 2016, four of the eight sub-recipients in year two during FY 2016 have received onsite fiscal monitoring visits. The other 4 sub-recipients will have monitoring visits conducted in April, 2017. In the spring of 2017 the DOE will conduct the 5 onsite fiscal monitoring visits for the current year two 21st CCLC sub-recipients according to our current policy. Going forward a risk based assessment will be conducted on all 21st CCLC grantees each year to determining the level of monitoring necessary. Depending on the level of risk determined, the new process will include a combination of on site and desk monitoring by fiscal and/or program staff that will be documented with the risk assessment.

Contact Person: Rob Huffman

Anticipated Completion Date: June 30, 2017

Recommendation 2:

Corrective Action Plan: The DOE disagrees with the auditors finding regarding risk evaluations. The DOE did evaluate subrecipient risk prior to awarding funds in accordance with 2 CFR 200.331(b). This process included a Financial Management Questionnaire in the grant application that all new grant applicants had to complete and submit. Prior to the awards, the applicants were evaluated for risk in FY 2015 and FY 2016 based on the answers to the questions in this form and the applicant's audit report, if applicable. The DOE used this analysis to determine the risk of the applicant's capacity to operate a grant, and to offer technical assistance in areas of potential deficiencies. These risk assessments were discussed by DOE staff and taken into consideration during the process of determining successful grant applicants. The audit finding stating that risk evaluations that were not performed until 10 and 22 months into the program funding is incorrectly referring to a process that was not implemented until FY 2017. Even though the DOE did not use the new formalized tool, described in the next paragraph, the DOE did perform a subrecipient risk evaluation for FY 2015 and FY 2016 in compliance 2 CFR 200.331(b). The DOE inadvertently provided the auditor with the current procedures instead of the procedures in place during the period being audited. Going forward, the DOE will document the results of the evaluations, scoring sheets, and discussions, and retain the records for audit purposes based on the FY 2017 procedures.

The DOE implemented a more formal risk evaluation that scored applicants on a pre award risk assessment tool for new FY 2017 sub grantees. The FY 2015 and FY 2016 risk assessments for new grantees included many of the items included on the FY 2017 formalized tool.

Contact Person: Rob Huffman

Anticipated Completion Date: Not applicable

Recommendation 3:

Corrective Action Plan: The DOE completed 12 of the 16 desk reviews from the FY 2015 list since January 1, 2017 and the remaining four FY 2015 desk reviews will be completed by the end of March. The FY 2016 desk reviews have been started and we anticipate that a many of these will be completed before the end of the current fiscal year.

Contact Person: Rob Huffman

Anticipated Completion Date: June 30, 2017

DEPARTMENT OF SOCIAL SERVICES

Finding No. 2016-005:

Corrective Action Plan: DSS will review the State Plan and amend language as necessary to more clearly identify the methodology of payment for room and board services for specialty surgical hospital inpatient claims. Anticipated completion date of March 31, 2017. For outpatient claims, the state plan section that outlines payment methodology was amended in August 2016 to reflect the transition to Ambulatory Payment Classification reimbursement for outpatient hospitals including Specialized Surgical Centers. DSS will review and enhance internal controls related to the review of payment rates and methodologies established in the State Plan. Anticipated completion date of June 30, 2017.

Contact Person: Laurie Mikkonen

Anticipated Completion Date: March 31, 2017 and June 30, 2017

Finding No. 2016-006:

Corrective Action Plan: DSS correctly adjusted provider rates in May 2016 prior to the audit report being received. DSS submitted payment to correct the FY2016 underpayment of the Access Critical hospitals. DSS has implemented an additional review of appropriated provider inflation.

Contact Person: Laurie Mikkonen

Anticipated Completion Date: Implemented

Finding No. 2016-007:

Corrective Action Plan: DSS identified and corrected adjusted claims totaling \$147,522.19 in June 2016 to the Human Services Center. DSS will enhance the procedures to include additional review of the calculations.

Contact Person: Laurie Mikkonen

Anticipated Completion Date: March 31, 2017

DEPARTMENT OF HUMAN SERVICES

Finding No. 2016-008:

Corrective Action Plan: The Department of Human Services amended its written procedure on Cash Draws to include a policy on allowability of costs when drawing federal funds and developed a written procedure on Allowable Costs. We will send all staff with signatory authority copies of the procedures and conduct a webinar to train staff with signature authority on the written procedures.

Contact Person: Lloyd Johnson, Assistant Director of Budget and Finance

Anticipated Completion Date: Implemented

DEPARTMENT OF GAME, FISH, AND PARKS

Finding No. 2016-009:

Corrective Action Plan: The South Dakota Department of Game, Fish & Parks does not concur with the finding.

The Department's state FY2016 audit of federal funds specifically focused on sportfish and wildlife restoration funds awarded by the US Fish & Wildlife Service. Shortly after enactment of the federal uniform grant guidance, the US Fish & Wildlife Service began creating an online grant guidance website (fawiki.fws.gov) to establish uniform grant reporting, monitoring, and management across all state fish & wildlife agencies in the country. Access and extensive training on the resources contained within the USFWS wiki site is provide to state personnel throughout the department. Creation of written procedures at the state level that vary from procedures that are already contained in the USFWS's wiki site may conflict with the federal awarding agency's efforts to create uniform grant processes across all state fish and wildlife departments. The Department would agree to establish a written policy formally directing agency staff to the USWFS wiki site, but does not feel the absence of such a directive warrants the audit finding.

As directed by the US Fish & Wildlife Service (the federal awarding agency for sportfish and wildlife restoration funds) the SD Department of Game, Fish & Parks will continue use USFWS's online grant guidance wiki site as the main source for federal grant reporting, monitoring, and management procedures. This resource directly includes guidance on payments, allowability of costs, and cash management. In 2017 the Department will communicate a department wide memo that directs all staff to the USFWS wiki site and reconfirms the site should serve as the main resource for federal sportfish and wildlife restoration funds reporting, monitoring, and management.

Contact Person: Chris Petersen, SD Game, Fish & Parks Finance Officer

Anticipated Completion Date: Not applicable

Finding No. 2016-010:

Corrective Action Plan: The conversion to cash based accounting for calculating federally eligible expenditures used in draw down requests has been fully implemented by SDGFP since the fall of 2015. Using cash based accounting for calculating federal draw downs allows the Department to use controls contained within the state's accounting system to generate accurate expense summaries.

In FY2017 SDGFP will provide the federal awarding agency, USFWS, with supporting documentation on additional grant eligible expenditures that will bring the Department back into balance with its 2015 and 2016 federal wildlife restoration fund apportionments.

Contact Person: Chris Petersen, SD Game, Fish & Parks Finance Officer

Anticipated Completion Date: Implemented

Finding No. 2016-011:

Corrective Action Plan: The SD Department of Game, Fish & Parks does recognize the benefits of establishing redundant internal financial processes including the generation of SF425 financial status reports and the annual hunting/fishing License Certification Reports.

However, when considering that this redundancy is not required under the federal uniform grant guidance and not required by the federal awarding agency (US Fish & Wildlife Service) the SD Department of Game, Fish & Parks does not concur with the formal audit finding.

SD Game, Fish & Parks has a strong, proactive relationship and an open line of communications with regional US Fish & Wildlife Service grant administration staff. The Department will continue to work closely with USFWS staff on all sportfish and wildlife restoration grant apportionments including reporting, monitoring, and management. The Department will give additional consideration to expanding the use of monthly expense reports and monthly cash center balance reports to enhance internal review processes.

SD Game, Fish & Parks has a strong, proactive relationship and an open line of communications with the State Bureau of Information and Telecommunications. The

Department will continue to work closely with SDBIT staff on operations of the agency's automated hunting and fishing license system. Continued efforts between SDBIT staff, SDGFP central finance office staff, Division of Wildlife administrative services staff and USFWS staff will ensure accurate hunting and fishing license certification reporting.

Contact Person: Chris Petersen, SD Game, Fish & Parks Finance Officer

Anticipated Completion Date: Not applicable

Finding No. 2016-012:

Corrective Action Plan: The SD Department of Game, Fish & Parks and the Bureau of Finance and Management believes allocating lease payment costs evenly to the users of the system is appropriate as these fixed costs are not usage dependent.

The SD Department of Game, Fish & Parks, the Bureau of Finance & Management, and the Bureau of Information & Telecommunications will review allocation methods.

Contact Person: Chris Petersen, SD Game, Fish & Parks Finance Officer

Anticipated Completion Date: Not applicable

ELLSWORTH DEVELOPMENT AUTHORITY

The following was issued under a separate audit of the Ellsworth Development Authority by Ketel Thorstenson, LLP.

Finding No. 2016-013:

Corrective Action Plan: To ensure this type of error does not re-occur, management and the accountant will be diligent in reviewing transactions that may span fiscal year-ends to ensure proper reporting in the correct accounting period.

SOUTH DAKOTA HOUSING DEVELOPMENT AUTHORITY

The following was issued under a separate audit of the South Dakota Housing Development Authority by Eide Bailly, LLP.

Finding No. 2016-014:

Corrective Action Plan: The Authority currently provides technical assistance on an ongoing basis and also provides annual formal training to management owner/agents. As noted in the finding, one of the 60 tenant assistance determinations was found in error. This does not reflect a trend or concentration for the Authority to specifically address. We will continue to provide training and technical assistance to owner/agents.

Contact Person: Mark Lauseng

Anticipated Completion Date: September 30, 2016

SOYBEAN RESEARCH AND PROMOTION COUNCIL

The following was issued under a separate audit of the Soybean Research & Promotion Council by Eide Bailly, LLP.

Finding No. 2016-015:

Corrective Action Plan: Management will review the year-end adjustments. Since it is not cost-effective for an organization of our size to have an individual on staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our financial statements as part of our annual audit. We have designated a member of management to review the propriety of the draft financial statements and accompanying notes to the financial statements.

Finding No. 2016-016:

Corrective Action Plan: We recognize that oversight and review of significant reconciliations, including documentation of the performance of oversight and review processes, is an important control in detecting and correcting misstatements to the financial statements. We will review the current procedures and make revisions as needed to ensure that the recommended procedures are taking place.

CORN UTILIZATION COUNCIL

The following was issued under a separate audit of the Corn Utilization Council by Eide Bailly, LLP.

Finding No. 2016-017:

Corrective Action Plan: Since it is not cost-effective for an organization of our size to have an individual on staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our financial statements as part of the annual audit. Management and the board of directors will review for propriety the draft financial statements and accompanying notes to the financial statements.

Finding No. 2016-018:

Corrective Action Plan: We have evaluated the segregation of duties over the revenue function and over the expenditure function. Management and the board of directors will exercise oversight of the accounting functions, which we believe mitigates the risk of material misstatement to an acceptable level.

**State of South Dakota
Auditee Prepared Summary
Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2016**

DEPARTMENT OF REVENUE

Finding No. 2015-001:

Initial Year of Finding: 2014

Financial Statement Audit Finding

Type of Finding: Significant Deficiency

Finding Summary: Internal controls were not adequate to ensure all financial institutions licensed by the South Dakota Division of Banking were submitting the required returns and payments to the Department of Revenue.

Status: Implemented - Corrective Action Taken. The DOR corrective plan as delineated in the Single Audit Report Schedule of Findings and Questioned Costs has been followed through on and as a result there was no audit finding in FY2016 Single Audit. We have discussed further automation of the information from the SD Division of Banking and to upload their entity identification number into a field within our CEDAR Tax system on each applicable license for those financial institutions.

Finding No. 2015-002:

Initial Year of Finding: 2015

Financial Statement Audit Finding

Type of Finding: Significant Deficiency

Finding Summary: Internal controls were not adequate to 1) ensure accuracy of the information provided by the International Fuel Tax Agreement (IFTA) Explore system and 2) ensure proper reporting of the State's revenue.

Status: Implemented - Corrective Action Taken. The DOR corrective plan as delineated in the Single Audit Report Schedule of Findings and Questioned Costs has been followed through on and as a result there was no audit finding in FY2016 Single Audit. The supporting documentation and policies and procedures that were written are 'living' documents and will continue to be updated for appropriate efficiencies and assurance of proper and adequate control activities.

DEPARTMENT OF EDUCATION

Finding No. 2015-003:

Initial Year of Finding: 2014

Federal Compliance Audit Finding

Type of Finding: Material Weakness

Finding Summary: The South Dakota Department of Education (DOE) did not have adequate controls in place to properly monitor subrecipient compliance with federal regulations or evaluate and mitigate risk associated with related party transactions.

CFDA Title: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)

CFDA Number: 84.334

Federal Award Number: P334S110022

Federal Award Year: 2013; 2014; 2015

Federal Agency: Department of Education

Category of Finding: Subrecipient Monitoring

Management Decision of Federal Awarding Agency: The audit finding was closed by the U.S. Department of Education in writing in the program determination letter dated October 13, 2016.

Status: Implemented - Corrective Action Taken

Finding No. 2015-004:

Initial Year of Finding: 2014

Federal Compliance Audit Finding

Type of Finding: Material Noncompliance

Finding Summary: The Mid-Central Educational Cooperative (MEC) did not comply with matching requirements.

CFDA Title: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)

CFDA Number: 84.334

Federal Award Number: P334S110022

Federal Award Year: 2014

Federal Agency: Department of Education

Category of Finding: Matching, Level of Effort, Earmarking

Management Decision of Federal Awarding Agency: The audit finding was closed by the U.S. Department of Education in writing in the program determination letter dated October 13, 2016.

Status: Implemented - Corrective Action Taken. The department has recently been made aware of additional information regarding the Microsoft DreamSpark Premium software licenses used for in-kind match and is currently in the process of evaluating the information.

Finding No. 2015-005:

Initial Year of Finding: 2014

Federal Compliance Audit Finding

Type of Finding: Material Weakness

Finding Summary: Controls were not effective over proper monitoring of the subrecipient to ensure compliance with allowable costs and cost principles requirements.

CFDA Title: Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)

CFDA Number: 84.334

Federal Award Number: P334S110022

Federal Award Year: 2013, 2014

Federal Agency: Department of Education

Category of Finding: Allowable Costs/Cost Principles, Subrecipient Monitoring

Management Decision of Federal Awarding Agency: The audit finding was closed by the U.S. Department of Education in writing in the program determination letter dated October 13, 2016.

Status: Implemented - Corrective Action Taken

SECRETARY OF STATE

Finding No. 2015-006:

Initial Year of Finding: 2015

Federal Compliance Audit Finding

Type of Finding: Significant Deficiency

Finding Summary: Internal controls were not sufficient to ensure that payments made under the Help America Vote Act (HAVA) were in compliance with grant requirements.

CFDA Title: Help America Vote Act Requirements Payments

CFDA Number: 90.401

Federal Award Number: 47-0601-0-1-808

Federal Award Year: 2006

Federal Agency: U.S. Election Assistance Commission

Category of Finding: Activities Allowed

Questioned Costs: \$12,000

Management Decision of Federal Awarding Agency: The Federal Election Assistance Commission notified the Secretary of State's office on May 6, 2016, that an audit of all records from 2003 through 2015 related to the Help America Vote Act grant would be audited. The

auditors were present from August 8-12, 2016, and September 19-23, 2016. The preliminary findings were received on February 14, 2017, with the exit interview currently scheduled for April 5, 2017. The final results of the audit will be published after that date.

Status: Implemented - Corrective Action Taken

STATEWIDE FINANCIAL REPORTING PROCESS

Finding No. 2015-007:

Initial Year of Finding: 2007

Financial Statement Audit Finding

Type of Finding: Material Weakness

Finding Summary: Controls placed into operation by the State were not effective in ensuring the accuracy of the amounts reported in the State's financial statements.

Status: Implemented - Corrective Action Taken

DEPARTMENT OF TRANSPORTATION

Finding No. 2015-008:

Initial Year of Finding: 2015

Federal Compliance Audit Findings

Type of Finding: Noncompliance

Finding Summary: Expenditures were not properly reported on the annual SF-425 report for programs awarded by the Federal Transit Administration (FTA).

CFDA Title: Federal Transit – Capital Investment Grants; Bus and Bus Facilities Formula Program; Enhanced Mobility of Seniors and Individuals with Disabilities; Formula Grants for Rural Areas

CFDA Number: 20.500; 20.526; 20.513; 20.509

Federal Award Number: SD-04-0016, SD-04-0018; SD-34-0001; SD-16-0004, SD-16-0035; SD-18-0049

Federal Award Year: 2012, 2014; 2015; 2015, 2013; 2014 (respectively)

Federal Agency: U.S. Department of Transportation, Federal Transit Administration

Category of Finding: Reporting

Management Decision of Federal Awarding Agency: Email dated 11/2/16 from Federal Transit Administration (FTA) Region 8 stating FTA considers this finding resolved.

Status: Implemented - Corrective Action Taken

Finding No. 2015-009:

Initial Year of Finding: 2015

Federal Compliance Audit Findings

Type of Finding: Significant Deficiency

Finding Summary: Internal controls were not adequate to ensure compliance with federal reporting requirements.

CFDA Title: Formula Grants for Rural Areas

CFDA Number: 20.509

Federal Award Number: SD-18-X049

Federal Award Year: 2014

Federal Agency: U.S. Department of Transportation, Federal Transit Administration

Category of Finding: Reporting

Management Decision of Federal Awarding Agency: Email dated 11/2/16 from Federal Transit Administration (FTA) Region 8 stating FTA considers this finding resolved.

Status: Implemented - Corrective Action Taken

Finding No. 2015-010:

Initial Year of Finding: 2015

Federal Compliance Audit Findings

Type of Finding: Significant Deficiency

Finding Summary: Internal controls were not adequate to ensure subrecipient compliance with the terms and conditions of the subaward.

CFDA Title: Federal Transit – Capital Investment Grants (Fixed Guideway Capital Investment Grants)

CFDA Number: 20.500

Federal Award Number: SD-04-0016

Federal Award Year: 2012

Federal Agency: U.S. Department of Transportation, Federal Transit Administration

Category of Finding: Subrecipient Monitoring

Questioned Costs: \$237,996

Management Decision of Federal Awarding Agency: Letter dated 12/8/16 FTA Region 8 stating all corrective actions have been accepted and officially closed by the Office of the Inspector General.

Status: Implemented - Corrective Action Taken

DEPARTMENT OF SOCIAL SERVICES

Finding No. 2015-011:

Initial Year of Finding: 2015

Federal Compliance Audit Finding

Type of Finding: Significant Deficiency

Finding Summary: The maximum income limits used to determine eligibility for the Low Income Home Energy Assistance Program for household sizes of seven or more exceeded the federally determined maximums and did not agree with the income limit contained in the State Plan.

CFDA Title: Low Income Home Energy Assistance Program

CFDA Number: 93.568

Federal Award Number: 20150992201

Federal Agency: Department of Health and Human Services (DHHS)

Federal Award Year: 2015

Category of Finding: Eligibility

Management Decision of Federal Awarding Agency: State of South Dakota Department of Social Services submitted updated income guidelines and the state plan has been approved by Administration for Children and Families.

Status: Implemented - Corrective Action Taken

Finding No. 2015-012:

Initial Year of Finding: 2015

Federal Compliance Audit Finding

Type of Finding: Noncompliance

Finding Summary: Reserved bed days were improperly included in nursing facility claims submitted by the State Veterans Home.

CFDA Title: Medical Assistance Program

CFDA Number: 93.778

Federal Award Number: 1405SD5MAP, 1505SD5MAP

Federal Award Year: 2014, 2015

Federal Agency: Department of Health and Human Services (DHHS)

Category of Finding: Allowable Costs

Questioned Costs: \$18,673.64

Management Decision of Federal Awarding Agency: U.S. Department of Health and Human Services determined, in a letter dated August 15, 2016, based on the provided documentation

the organization's planned action will satisfy the recommendations we have resolution responsibility for.

Status: Implemented - Corrective Action Taken

SOYBEAN RESEARCH AND PROMOTION COUNCIL

The following was issued under a separate audit of the Soybean Research and Promotion Council by Eide Bailly, LLP.

Finding 2015-013 - Preparation of Full Disclosure Financial Statements and Material Adjustments

Condition: The Council does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we proposed material audit adjustments that would not have been identified as a result of the Council's existing internal controls. We were also requested to draft the financial statements and accompanying notes to the financial statements.

Current Status: Management will review the year-end adjustments. Since it is not cost-effective for an organization of our size to have an individual on staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our financial statements as part of the annual audit. We have designated a member of management to review the propriety of the draft financial statements and accompanying notes to the financial statements. The finding was repeated at Finding 2016-015 on the accompanying Schedule of Findings and Responses.

Finding 2015-014 - Accounting for Contract Expenditures

Condition: The Council has an on-line project management system designed to provide for submission of project expenditures, reporting of project expenditures by grantees, and approval of project expenditures, that is in the early stages of implementation. Due to delays in the reporting of project expenditures by grantees, it was difficult to determine the accurate reporting of accounts payable and related expenditures related to projects that the Council has provided funding for.

Current Status: Management will review the year-end adjustments relating to accounts payable and project expenditures. Management will continue the implementation of the on-line project management system which will allow the Council to properly record the accounts payable and related expenditures related to projects on an ongoing basis. The finding was partially resolved but repeated at Finding 2016-015 relating to material adjustments on the accompanying Schedule of Findings and Responses.

CORN UTILIZATION COUNCIL

The following was issued under a separate audit of the Corn Utilization Council by Eide Bailly, LLP.

Finding Number 2015-015 - Preparation of Financial Statements

Condition: The Council does not have an internal control system designed to provide for the preparation of the financial statements being audited. We were requested to draft the financial statements and accompanying notes to the financial statements.

Status: We were again requested to draft the financial statements and accompanying notes to the financial statements. See Finding 2016-017.

Finding Number 2015-016 - Lack of Proper Segregation of Duties for the Revenue and Expenditure Functions

Condition: The Council did not have an internal control system to allow for the proper segregation of duties in certain areas of the accounting function.

Status: Due to the limited staffing, see Finding 2016-018.

WHEAT UTILIZATION, RESEARCH, AND MARKET DEVELOPMENT COMMISSION

The following was issued under a separate audit of the Wheat Utilization, Research and Market Development Commission by Eide Bailly, LLP.

Finding No. 2014-013

Criteria: Proper controls over financial reporting include the ability to prepare financial statements with accompanying notes to the financial statements that are materially correct and include all required disclosures.

Status: This audit finding is no longer valid and does not warrant further actions because two years have passed since the audit report in which the finding occurred was submitted to the FAC, no Federal agency or pass-through entity is currently following up with the auditee on the audit finding, and no Federal agency or pass-through entity has issued a management decision.

Finding No. 2014-014

Criteria: In order to achieve a high level of internal control, the functions of executing transactions, recording transactions and maintaining accountability for assets should be performed by different employees or be maintained under dual control.

Status: This audit finding is no longer valid and does not warrant further actions because two years have passed since the audit report in which the finding occurred was submitted to the FAC, no Federal agency or pass-through entity is currently following up with the

auditee on the audit finding, and no Federal agency or pass-through entity has issued a management decision.

