

Legislative Audit Overview for the SD Investment Council

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AUDITOR GENERAL

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Legislative Audit History and Responsibilities

■ History

- Created in 1943 as the Department of Audits and Accounts
 - Agency head title was Comptroller
 - Function was “examining” financial records
- Agency head title changed to Auditor General in 1966
- Agency renamed Department of Legislative Audit (DLA) in 1974
 - Transition from examining records to performing engagements in accordance with professional standards
- Six Auditor Generals in the State’s history
- Nonpartisan agency of the legislative branch
 - Auditor General appointed to eight-year term by joint legislative resolution
 - Executive Board of the Legislative Research Council directs DLA’s activities
 - DLA organizationally meets independence requirements of professional standards
 - Auditor General is a member of the SD Board of Accountancy by statute

Legislative Audit History and Responsibilities

- Mission
 - To provide services that continuously improve financial management and reporting thereby enhancing the accountability of government to its citizens
- Responsibilities – SDCL Chapters 4-2 and 4-11
 - Audits and other attestation engagements for State agencies and local governments
 - Financial and compliance audits of State agencies and local governments
 - Agreed-upon procedures engagements for State agencies and local governments
 - Internal control reviews of small municipalities
 - Other engagements related to allegations of fraud, noncompliance or abuse by public officials and employees
 - Prepare and maintain accounting manuals for counties, municipalities and schools
 - Technical assistance to State agencies and local governments
 - Review and approve annually over 300 audit reports of governments and certain nonprofits done by CPA firms
 - Staff to Legislature’s Government Operations and Audit Committee

DLA's Responsibilities and Services Related to the SD Investment Council (SDIC)

- As required by SDCL 4-11-2 DLA performs an annual audit of the State in accordance with government auditing standards
 - Includes all activities of the SDIC
 - Two trust portfolios are major funds in the State's financial statements
 - Incorporates annual audit of the South Dakota Retirement System (SDRS) done by a firm approved by DLA
 - Draft SDRS report is reviewed by DLA before issuance
- SDCL 4-5-35 makes DLA responsible for annual post-audit of investment transactions of the State and reporting to the SDIC and the Legislature
 - DLA performs annual audit of the cash flow and trust fund portfolios
 - Annual audit of the SDRS by CPA firm
- At SDIC's request DLA prepares quarterly agreed-upon procedures reports
 - Provides monitoring of SDIC's internal controls and compliance for the Audit Committee
 - Provides additional evidence of benefit to DLA's risk assessment during annual audits of SDIC and the State's financial statements
 - Benefits the SDRS audit firm knowing that the SDIC is regularly monitoring its internal control system

DLA's Responsibilities and Services Related to the SD Investment Council (SDIC)

Item	FY 2020 Annual Audit	Agreed Upon Procedures (AUP)
Engagement letter	Signed by audit committee chair and SDIC management, typically in June	Signed by the audit committee chair and SDIC management, typically in November
Portfolios included	Cash Flow Fund and Trust Funds	Procedures developed by audit committee, typically includes Cash Flow Fund, Trust Funds and SDRS
Field work dates	DLA team worked with the SDIC management and performed majority of the work from Pierre (July 27 – September 28)	Varies based on when records become available and DLA audit team availability
Report issuance date	October 2, 2020	Issued quarterly for first three quarters of each fiscal year
Management representation letter	Signed by SDIC management	Separate letters signed by audit committee chair and SDIC management
Letter to governance	Sent to audit committee chair at conclusion of audit	None
Report distribution	Copies sent to the audit committee chair, SDIC management, Governor's Office, BFM and LRC	Emailed to the audit committee chair and SDIC management

DLA's Adherence to Professional Standards

- DLA follows all applicable professional auditing standards
 - Government Auditing Standards issued by the U.S Government Accountability Office
 - U.S. Generally Accepted Auditing Standards issued by the American Institute of Certified Public Accountants
 - Additional requirements of the federal Single Audit Act and Uniform Guidance
- General professional standards require technical competence
 - DLA's 2020 audit team has combined 146 years audit experience
 - 4 Certified Public Accountants
 - 1 Certified Information Systems Auditor
 - 4 staff with Certified Investments and Derivatives Auditor (CIDA) designation
 - DLA professional staff receive at least 80 hours of continuing professional education every two years

DLA's Adherence to Professional Standards

- DLA is peer reviewed every three years as required by professional standards
 - Peer review program is administered by the National State Auditor's Association
 - Peer review team includes members from across the country and federal government representative
 - Team members are experienced supervisory government auditors
 - Team leaders and concurring reviewers are experienced peer reviewers
 - Rigorous and thorough review of DLA quality control system
 - Most recent peer review was in 2020
 - DLA received pass report without deficiencies
 - No written findings for further consideration

DLA's Commitment to the SDIC

- DLA will provide services to the SDIC with a highly qualified professional team
- SDIC will receive an independent and objective assessment of internal controls over financial reporting and compliance with laws and regulations and financial statement opinions
- DLA will candidly discuss audit-related issues with the SDIC Audit Committee and provide other services as professional standards allow
- Questions?