



DEPARTMENT of ENVIRONMENT
and NATURAL RESOURCES

JOE FOSS BUILDING
523 EAST CAPITOL
PIERRE, SOUTH DAKOTA 57501-3182

denr.sd.gov

August 19, 2019

Greg Kaschmitter
Managing Partner/Co-chairman
RMB Associates
PO Box 2524
Sioux Falls, SD 57101

Dear Mr. Kaschmitter:

The South Dakota Department of Environment and Natural Resources has received a copy of the Powder House Pass CID audit report for the year ending December 31, 2019. The report included audit findings pertinent to funds administered through the State Revolving Fund program. As per OMB Uniform Guidance 2 CFR §200.521 a management decision must be issued within six months of acceptance of the audit by the Federal Audit Clearinghouse.

Finding 2018-001: Internal Control over Procurement and Awarding Contracts

Powder House Pass corrective action plan indicates: The entity intends to develop a written policy related to procurement for personnel involved in contracting, awarding contracts only to responsible contractors, as well as, established procedures in place related to suspension and debarment.

Management Decision: DENR agrees with Powder House Pass' action plan.

Finding 2018-002: Failure to submit annual financial reports as required by the loan covenants
Powder House Pass corrective action plan indicates: The entity intends to submit the annual financial reports to the state as required by January 31, 2020.

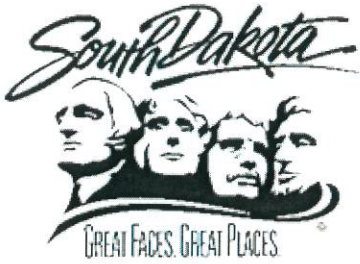
Management Decision: DENR agrees with the Powder House Pass plan to submit future annual financial reports; however, DENR also requests that Powder House Pass submit the items identified in the enclosed February 25, 2019 letter.

If you have any question or concerns, please contact Stephanie Riggle at 605-773-4907.

Sincerely,

Michael A. Perkovich, Administrator
Water and Waste Funding Program

Enclosure



DEPARTMENT OF ENVIRONMENT
and NATURAL RESOURCES

JOE FOSS BUILDING
523 EAST CAPITOL
PIERRE, SOUTH DAKOTA 57501-3182
denr.sd.gov

Monday, February 25, 2019

Powder House Pass CID
c/o Greg Kaschmitter
RMB Associates
Sioux Falls, SD 57108-5407

Dear Greg Kaschmitter:

Pursuant to loan agreement(s) between Powder House Pass CID and the South Dakota Conservancy District, all borrowers are required to submit annual documentation of their financial situation. Acceptable forms of the following documentation include Internet (web) address, PDF, Word, or Excel and may be sent to me via email or through the U.S. Postal Service by **April 30, 2019**. If any reports are published on the web, please contact me at (605) 773-4907 or stephanie.riggle@state.sd.us and let me know when the report(s) will be available. You need not have all documentation completed before any documentation is submitted.

Year(s) Required	Type of Documentation
2019	<u>Budget</u> . The budget must include the breakdown of funds pledged toward repayment of the loan(s).
2018	<u>Unaudited Financial Statements</u> . These statements must include revenue for funds being pledged toward repayment of the loan(s) as well as detailed expenditures. If a project surcharge is the source of repayment, the statements must show this surcharge as a separate line item. <u>Proof of</u> current Property, Casualty, and Liability <u>Insurance</u> .
2018	<u>Certificate(s) of Compliance with Rate Covenant</u> . Debt service is required principal and interest payable and must include all debt pledged to the same revenue. No other debt may be included if Project Surcharge is pledged for repayment.

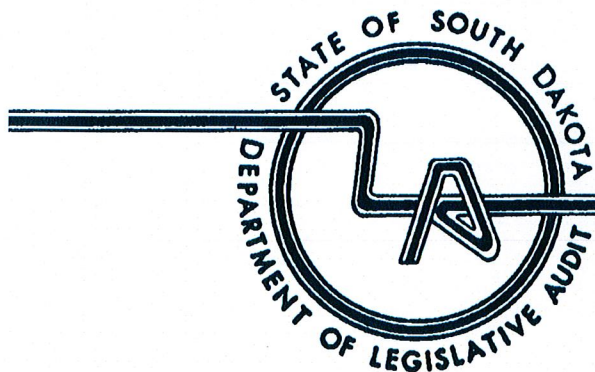
Borrowers are reminded that any time an audit is conducted; you **MUST** submit a copy of the report to my attention in DENR. Thank you for your immediate attention.

Sincerely,

Stephanie Riggle
Grant and Loan Specialist I
DENR Water and Waste Funding Program

Enclosure

Rate Covenant



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

Date: June 18, 2019

To: SD Department of Environment and Natural Resources
State Board of Internal Control

Re: Audit Report on – Powder House Pass Community Improvement District
As of and for the year ended December 31, 2018
By: Eide Bailly, LLP, CPAs

We have accepted the final report on the audit of the above-named entity conducted under the requirements of OMB Uniform Guidance.

OMB Uniform Guidance requires the State of South Dakota, as a direct recipient of federal assistance who provides federal awards to a subrecipient, to:

1. Ensure that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Uniform Guidance for that fiscal year.
2. Ensure that the subrecipient takes timely and appropriate corrective action when the audit report discloses instances of noncompliance with federal laws and regulations.
3. Consider whether this subrecipient audit necessitates adjustment of your program records.

The accompanying audit report is submitted to you to help fulfill these requirements.

The report does identify audit findings pertaining to federal award programs administered by your agency/department that are required to be reported in accordance with OMB Uniform Guidance, §200.516(a). See pages 8-9. Accordingly, you are required to issue a management decision on the audit findings within six months after receipt of this audit report (OMB Uniform Guidance §200.331(d)(3)).

Please contact us if you have any questions.

Sincerely,

Martin L. Guindon, CPA
Auditor General

MLG:sld

Enclosure



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2018

Powder House Pass Community Improvement District

Powder House Pass Community Improvement District

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December 31, 2018

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Independent Auditor's Report

To the Board of Supervisors
Powder House Pass Community Improvement District
Lead, South Dakota

Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying schedule of expenditures of federal award for the Environmental Protection Agency's Capitalization Grant for Clean Water State Revolving Funds received by Powder House Pass Community Improvement District for the year ended December 31, 2018, and the related notes (the financial statement).

Management's Responsibility for the Schedule of Expenditures of Federal Awards

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the expenditures of federal awards for the Environmental Protection Agency's Capitalization Grant for Clean Water State Revolving Funds received by Powder House Pass Community Improvement District for the year ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

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

Sioux Falls, South Dakota
May 21, 2019



Independent Auditor's Report on Compliance for the Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Supervisors
Powder House Pass Community Improvement District
Lead, South Dakota

Report on Compliance for the Federal Program

We have audited Powder House Pass Community Improvement District's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Capitalization Grant for Clean Water State Revolving Funds Program for the year ended December 31, 2018.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of federal awards applicable to the federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *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 (CFR) *Part 200, Uniform Administrative Requirements, Cost Principles, and audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Organization's federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Compliance for the Federal Program

In our opinion, Powder House Pass Community Improvement District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its federal program for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-001 to be a significant deficiency.

The Organization's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Sioux Falls, South Dakota
May 21, 2019

Powder House Pass Community Improvement District
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-through Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>Environmental Protection Agency</u>				
Passed through the State of South Dakota Board of Water and Natural Resources				
Capitalization Grants for Clean Water State Revolving Funds	66.458	Series 2014	\$ 199,279	\$ -
Capitalization Grants for Clean Water State Revolving Funds	66.458	Series 2018	<u>1,657,402</u>	<u>-</u>
			<u>\$ 1,856,681</u>	<u>\$ -</u>

Powder House Pass Community Improvement District

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2018

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the financial statement) includes the federal award activity of Powder House Pass Community Improvement District (the Organization) under the Capitalization Grant for Clean Water State Revolving Fund Program of the federal government for the year ended December 31, 2018. The information is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note B - Significant Accounting Policies

Expenditures reported on the financial statement are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note C - Significant Accounting Policies

The Organization does not draw for indirect administrative expenses and has not elected to use the 10% de minimis cost rate.

Powder House Pass Community Improvement District
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

Section I – Summary of Auditor’s Results

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	Yes
Significant deficiency identified not considered to be material weaknesses	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 Uniform Guidance 2 CFR 200.516:	Yes
Identification of major programs:	
<u>Name of Federal Program</u>	<u>CFDA Number</u>
Capitalization Grants for Clean Water State Revolving Funds	66.458
Dollar threshold used to distinguish between Type A and Type B Programs	N/A - program-specific audit
Auditee qualified as low-risk auditee?	No

Section II – Federal Award Findings and Questioned Costs

2018-001

**Environmental Protection Agency
CFDA 66.458, Series 2014 and Series 2018
Capitalization Grants for Clean Water State Revolving Funds**

**Procurement, Suspension, and Debarment
Significant Deficiency in Internal Control Over Compliance**

Criteria: The Organization must establish and maintain effective internal control over federal awards that provides reasonable assurance that the Organization is managing the federal awards in compliance with federal statutes, regulations and terms and conditions of the federal award. Management is responsible for establishing procedures for procurement of equipment, real property, and other services funded by federal funds. The procurement documentation for purchases in excess of the small purchase threshold shall include evidence that price or rate quotations were obtained from an adequate number of qualified sources.

In addition, award recipients must not utilize any vendor which is suspended or debarred or is otherwise excluded from the central contractor registry.

Condition: The Organization has not documented their internal controls for compliance with the procurement, suspension and debarment compliance requirement of Uniform Guidance as noted above.

The Organization does not have a written policy related to procurement or written standards of conduct for personnel involved in contracting, awarding contracts only to responsible contractors, as well as, established procedures in place related to suspension and debarment. As a result, for contracted vendors with expenditures in excess of \$25,000, the Organization did not perform a periodic check of vendor's certification regarding suspension and debarment subsequent to the initial suspension and debarment certificate being obtained.

Cause: The Organization was not aware of the requirement to perform periodic checks of vendors against the suspension and debarment listing and therefore did not have a monitoring process in place to ensure compliance with the suspension and debarment requirements.

Effect: Inadequate controls over this area of compliance result in a reasonable possibility that the Organization would not have the required documentation in place and would not be able to detect and correct noncompliance in a timely manner.

Questioned Costs: None reported.

Context: The procurement, suspension and debarment requirements were applicable to three vendors, all of which were selected for testing.

Repeat Finding from Prior Years: No

Recommendation: We recommend that adopting a written policy related to procurement or written standards of conduct policy and implementing a monitoring controls over the suspension and debarment compliance requirements.

Views of Responsible Officials: Management agrees with the finding.

2018-002

**Environmental Protection Agency
CFDA 66.458, Series 2014 and Series 2018
Capitalization Grants for Clean Water State Revolving Funds**

**Special Tests and Provisions
Material Weakness in Internal Control Over Compliance**

Criteria: The revenue obligation loan agreement includes covenants which require that financial reports must be submitted to the State of South Dakota annually to comply with loan covenants. Internal controls over compliance with the loan covenants should be established.

Condition: The Organization did not submit annual financial reports to the state as required by loan covenants.

Cause: The board of supervisors are reviewing the internal reports, but the required reports are not being submitted to the state. The Organization was not aware of the requirements to submit annual financial reports.

Effect: Inadequate controls over these areas of compliance result in a reasonable possibility that the Organization would not have met the loan covenant requirements or would not be able to detect and correct noncompliance in a timely manner.

Questioned Costs: None reported. The annual financial reports do not impact the amount of federal expenditures.

Context: Submission of an annual report

Repeat Finding from Prior Years: No

Recommendation: We recommend implementing a system of internal controls over compliance to monitor compliance with loan covenants.

Views of Responsible Officials: Management agrees with the finding.



Management's Response to Auditor's Findings:
Corrective Action Plan
December 31, 2018

Prepared by Management of
**Powder House Pass Community
Improvement District**

Corrective Action Plan

Finding 2018-001

Federal Agency Name: Environmental Protection Agency

Program Name: Capitalization Grants for Clean Water State Revolving Funds

CFDA # 66.458, Series 2014 and Series 2018

Finding Summary: The Organization does not have a written policy related to procurement or written standards of conduct for personnel involved in contracting, awarding contracts only to responsible contractors, as well as, established procedures in place related to suspension and debarment. As a result, for contracted vendors with expenditures in excess of \$25,000, the Organization did not perform a periodic check of vendor's certification regarding suspension and debarment subsequent to the initial suspension and debarment certificate being obtained.

Responsible Individuals: Gerald Aberle and Adam Niedermeier

Corrective Action Plan: Powder House Pass CID intends to develop a written policy related to procurement for personnel involved in contracting, awarding contracts only to responsible contractors, as well as, established procedures in place related to suspension and debarment.

Anticipated Completion Date: December 31, 2019

Finding 2018-002

Federal Agency Name: Environmental Protection Agency

Program Name: Capitalization Grants for Clean Water State Revolving Funds

CFDA # 66.458, Series 2014 and Series 2018

Finding Summary: The Organization did not submit annual financial reports to the state as required by loan covenants.

Responsible Individuals: Adam Niedermeier

Corrective Action Plan: Powder House Pass CID will submit annual financial reports to the state as required by loan covenants.

Anticipated Completion Date: January 31, 2020