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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

October 6, 2017

Bradley Johnson, Chairman  
Board of Water and Natural Resources  
PO Box 1343  
Watertown, SD 57201

Dear Mr. Johnson,

This letter is intended to inform you of matters that must be formally communicated to those charged with governance in accordance with auditing standards generally accepted in the United States of America. These required communications include, but are not limited to, the following:

- 1) The auditor's views about qualitative aspects of the entity's significant accounting practices
- 2) Any significant difficulties encountered during the audit
- 3) Any disagreements with management
- 4) Corrected and uncorrected misstatements, other than those that are trivial, brought to management's attention as a result of the audit
- 5) Representations the auditor has requested from management
- 6) Management's consultation with other accountants, if any
- 7) Any significant issues arising from the audit that were discussed or communicated to management
- 8) Any other findings or issues considered significant or relevant to those charged with governance regarding their oversight of the financial reporting process, such as any threats to auditor independence

As part of performing the Department of Environment and Natural Resources audit for the fiscal year ended June 30, 2017, we have identified the following matters that we feel are required to be communicated to those charged with governance.

Qualitative Aspects Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant policies used by the Entity are described in Note 1 to the financial statements. No other accounting policies were changed during the year ended June 30, 2017. We noted no transactions entered into by the Entity during the year for which there was a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Only a portion of the transactions for the Clean Water State Revolving Fund and Drinking Water State Revolving Fund are recorded on an accounting system. The transactions associated with the accounts maintained at the First National Bank and US Bank are not recorded on an accounting system and therefore a dual entry system is not used when preparing the financial statements.

Difficulties Encountered in Performing the Audit

We noted no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no significant disagreements arose during the course of our audit.

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements or adjustments noted for the year ended June 30, 2017.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 6, 2017, which has been attached.

Management's Consultation with other Accountants

In some cases management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If consultation involves application of an accounting principle to the State's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

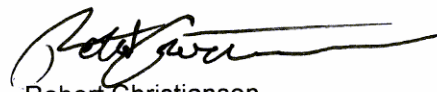
The internal controls in place over monitoring of the Clean Water State Revolving Fund (CWSRF) were inadequate to ensure the bank was depositing payments considered program income into the correct bank accounts. This was deemed to be a significant deficiency in internal controls that resulted in noncompliance with the CWSRF program and was communicated to management in through a written finding. A corrective action plan and the other required information has been submitted to Legislative audit by DENR's management.

There were no other findings or issues noted during the audit.

This communication is intended solely for the information and use of those charged with governance and, if appropriate, management and is not intended to be and should not be used by anyone other than those specified parties.

If you have any questions, please contact me at 773-3595.

Sincerely,



Robert Christianson  
Audit Manager