



HAND COUNTY AUDITOR

415 WEST FIRST AVENUE
MILLER, SOUTH DAKOTA 57362-1346

(605) 853-2182
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January 14, 2020

Toby Qualm, Auditor
Department of Legislative Audit
427 S Chapelle
Pierre, SD 57501

We are providing this letter in connection with your audit of the financial statements of Hand County as of December 31, 2018 and for each of the two years in the biennial period then ended for the purpose of expressing an opinion as to whether the modified cash basis general purpose financial statements present fairly, in all material respects, the financial position of the governmental activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hand County and the respective changes in financial position in conformity with a comprehensive basis of accounting other than generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the aforementioned financial statements in conformity with a comprehensive basis of accounting other than generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining appropriate internal controls, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your examination.

1. The financial statements referred to above are fairly presented in conformity with a comprehensive basis of accounting other than generally accepted accounting principles.
2. All funds that meet the quantitative criteria of Governmental Accounting Standards Board (GASB) Statement No. 34 and 37 for presentation as major have been properly identified, and are presented as such, and all other funds that are presented as major have been so designated by us, and are considered important to users of our financial statements.

3. The basic financial statements of the county have been presented in conformity with a comprehensive basis of accounting other than generally accepted accounting principles, namely "modified cash basis". We have elected to adopt the modification, substantially supported by generally accepted accounting principles of reporting "investments".
4. Joint ventures, jointly governed organizations, cost-sharing arrangements and other related organizations have been properly disclosed in the financial statements or related notes, as applicable..
5. Net position component (restricted; and unrestricted) and fund balance restrictions, assignments and commitments are properly classified, and have been authorized by appropriate action of the county commission, where required.
6. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
7. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
8. Interfund, internal, and intra-entity activity and balance have been appropriately classified and reported.
9. We have disclosed all deposit accounts and investments which are classified as to risk, and investments are properly valued, including special accounts whose authorized signatories are other than the County Auditor or County Treasurer, held in local bank accounts and funds held in trust at banks or other financial institutions. We have only one federal Taxpayer Identification Number (TIN).
10. Supplementary Information consisting of the Supplementary Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual, for the General and each major Special Revenue Fund has been prepared and presented within prescribed guidelines of GASB Statement No. 34 and the Schedule of the County's Proportionate Share of Net Pension Liability (Asset) has been prepared and presented within the prescribed guidelines of GASB Statement No. 68.
11. Supplementary Information, consisting of Management's Discussion and Analysis has not been prepared.
12. We have made available to you all:
 - a. Financial records and related data.
 - b. Minutes of board meetings or summaries of actions of recent meetings for which minutes have not been prepared.
13. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

14. There are no material transactions that have not been properly recorded in the accounting records underlying our financial statements.
15. We have reviewed your potential audit adjustments and concur that the effects of the uncorrected misstatements aggregated by you during your audit are immaterial, both individually and in the aggregate, to the financial statements of each reporting unit taken as a whole.
16. We acknowledge our responsibility for the design and implementation of programs and controls to both prevent and detect fraud.
17. We have no knowledge of any fraud or suspected fraud affecting the county involving:
 - a. Management;
 - b. Employees who have significant roles in internal control; or,
 - c. Others where the fraud could have a material effect on the financial statements.

Furthermore, we have no knowledge of any allegations of fraud or suspected fraud affecting the county received in communications from employees, former employees, analysts, regulators, or others.

18. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or fund equity.
19. All transactions of the county during the audit period, conducted with outside parties, were on an arm's length basis; that is, none of the officers or key employees of the county had any material direct or indirect ownership or profit participation in those enterprises with which the county had significant dealings.
20. All guarantees, whether written or oral, under which we are contingently liable have been properly recorded or disclosed in the financial statements.
21. We believe all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements, are reasonable in the circumstances, consistently applied, and adequately disclosed.
22. Participation in a public entity risk pool has been properly reported and disclosed in the financial statements.
23. We are responsible for the county's compliance with laws and regulations applicable to it and we have identified and disclosed to you, all laws and regulations that have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

24. There are no:

- a. Violations or possible violations of budget laws (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.
- b. Unasserted claims or assessments that our legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
- d. Restrictions, assignments or commitments of fund equity that were not properly authorized and approved.

25. The county has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

26. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

27. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

28. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives related to the current audit and have provided our corrective action plan on current and prior audit findings and recommendations, as applicable.

29. We have chosen to have the Department of Legislative Audit prepare our Notes to the Financial Statements and the Schedule of the County's Proportionate Share of the Net Pension Asset.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Board Chairperson

County Auditor



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

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

January 14, 2020

Hand County
415 West 1st Avenue
Miller, SD 57362

In planning and performing our audit of the financial statements of Hand County (County) as of December 31, 2019 and for each of the years in the biennial period then ended, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, we considered County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

Auditing standards generally accepted in the United States of America and *Government Auditing Standards* require that we provide you with this management letter to communicate:

1. Deficiencies Noted in Internal Control:

- a. Deficiencies in internal control which are material weaknesses or significant deficiencies. Material weaknesses and significant deficiencies will be included in the schedule of current audit findings included in the audit report and are summarized later in this letter.
- b. Deficiencies noted in internal control which did not rise to the level of being a material weakness or significant deficiency, yet are important enough to merit attention by those charged with governance. These deficiencies are described in detail later in this letter.

Rx'd at meeting
from Toby Qualm.

2. Violations of laws, rules and regulations and provisions of contracts or grant agreements.
 - a. Material violations of laws, rules and regulations and provisions of contracts or grant agreements. Material violations will be included in the schedule of current audit findings included in the audit report and are summarized later in this letter.
 - b. Immaterial violations of laws, rules and regulations and provisions of contracts or grant agreements. These violations are described in detail later in this letter.
3. All unadjusted proposed audit adjustments to the financial statements which were not corrected, including the nature, amount and effect of the uncorrected misstatements. These adjustments have been determined by management to be immaterial, both individually and in the aggregate, to the financial statements, taken as a whole. The lead schedule of potential audit adjustments has been given to and discussed with Doug DeBoer, County Auditor.

Deficiencies Noted in Internal Control Which Are Material Weaknesses Or Significant Deficiencies which are included in the schedule of current audit findings in the audit report:

- mention

1. We noted that internal controls over financial reporting for the years 2017 and 2018 were inadequate resulting in inaccurate information being provided to the users of the annual financial reports. We recommend that the County strengthen internal controls over financial reporting. This finding is discussed further in Current Audit Finding No. 2018-001.

Human ERRORS

Deficiencies Noted in Internal Control Which Did Not Rise To The Level Of Being A Material Weakness or Significant Deficiency Yet Important Enough To Merit Attention Of Those Charged With Governance:

1. We noted that the Register of Deeds had not been properly reconciling the cash assets recorded on the accounting records with the balances shown on the bank statements. We recommend that the County prepare a proper reconciliation on a monthly basis.
2. We noted that the accounting system used by the County allowed various methods for changes to the accounting system data. These changes were not always reviewed by someone other than the person making the changes. We recommend that the County strengthen internal controls and implement an independent review process for all changes made to the accounting system.
3. We noted that the County Auditor had not reconciled the Tax Account Record with the Delinquent Tax Listing. This is also a violation of SDCL 10-17-9. We recommend that the County comply with SDCL 10-17-9 and perform such a reconciliation on a yearly basis.
4. We noted instances in which Governmental Fund vouchers approved by the Governing Board and paid by the County were not published in the minutes of the Governing Board. This is also a violation of SDCL 7-18-3. We recommend that the County comply with SDCL 7-18-3 and publish all Government Fund vouchers.

Rev.

Rev.

Rev.

TIF checks published x4
Hosp debt payment

Material Violations of Laws, Rules, and Regulations and Provisions of Contract and Grant Agreements which are included in the schedule of current audit findings in the audit report:

None Disclosed.

Immaterial Violations of Laws, Rules, and Regulations and Provisions of Contract and Grant Agreements

1. We noted instances during 2017 and 2018 in which the County made expenditures in excess of appropriations. This is a violation of SDCL 7-21-20. We recommend that the County comply with SDCL 7-21-20 and refrain from making expenditures in excess of appropriations.

Ref. refrain.

We also noted other less significant items through out the course of the audit that were discussed with management.

This communication is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of Hand County and is not intended to be and should not be used by anyone other than these specified parties. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

If you have any questions, please contact me.

Sincerely,



Toby Qualm
Auditor-in-Charge

HAND COUNTY

SCHEDULE OF CURRENT AUDIT FINDINGS

Current Audit Findings:

Internal Control-Related Findings – Material Weakness:

Financial Reporting Errors

Finding No. 2018-001:

Criteria:

The County's internal control structure should be designed to provide for the preparation of the annual financial reports, which includes having an adequate system for recording and processing entries material to the annual financial reports being audited in accordance with the modified cash basis of accounting.

Condition:

The County does not have an internal control system designed to provide for the preparation of the annual financial reports in accordance with the modified cash basis of accounting. We noted numerous significant reporting errors within the annual reports prepared by the County.

Context:

We noted the following significant errors in the County's annual financial reports for the years ended December 31, 2017 and December 31, 2018.

a. The 2018 Statement of Net Position contained the following significant errors:

- Restricted for Emergency Management Purposes was overstated by \$22,612.20.
- Restricted for Other Purposes was overstated by \$616.42.
- Unrestricted Net Position was understated by \$23,228.62.

b. The 2018 Statement of Activities contained the following significant errors:

- Operating Grants – General Government was overstated by \$96,494.44.
- Operating Grants – Public Safety was overstated by \$11,432.63.
- Operating Grants – Public Works was overstated by \$22,083.83.
- Operating Grants – Health and Welfare was overstated by \$6,949.23.
- Operating Grants – Conservation of Natural Resources was overstated by \$1,329.89.
- Charges for Services – General Government was understated by \$96,494.44.
- Charges for Services – Public Safety was understated by \$11,432.63.
- Charges for Services – Public Works was understated by \$22,083.83.
- Charges for Services – Health and Welfare was understated by \$6,949.23.
- Charges for Services – Conservation of Natural Resources was understated by \$1,329.89.

c. The 2017 Statement of Activities contained the following significant errors:

- General Revenues – State Shared Revenues were overstated by \$46,962.66.
- Operating Grants – Public Safety were understated by \$40,905.57.
- Operating Grants – Public Works were understated by \$6,057.09.

- d. The 2018 Governmental Funds Balance Sheet contained the following significant errors:
- General Fund Unassigned Fund Balance was overstated and Assigned Fund Balance was understated by \$50,000.00.
 - Other Governmental Funds Restricted Fund Balance was overstated and Assigned Fund Balance was understated by \$23,228.62.
- e. The 2018 Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance contained the following errors:
- Road and Bridge Fund Motor Vehicle Licenses was overstated by \$21,898.76.
 - Road and Bridge Fund Prorate/Port of Entry Fees was overstated by \$4,241.21.
 - Road and Bridge Fund Motor Fuel Tax was overstated by \$468.13.
 - Road and Bridge Fund State Highway Funds was overstated by \$2,984.62.
 - Road and Bridge Fund Motor Secondary Road Remittances was understated by \$29,592.72.
 - Road and Bridge Fund Motor Vehicle Licenses was overstated by \$21,898.76.
 - Other Governmental Funds Communication Center Expenditures were overstated and Emergency Management Expenditures were understated by \$15,911.30.
 - Other Governmental Funds Transfers In and Transfers Out were both overstated by \$15,911.30.
- f. The 2017 Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance contained the following errors:
- Road and Bridge Fund Motor Vehicle Licenses was overstated by \$22,379.22
 - Road and Bridge Fund Prorate/Port of Entry Fees was overstated by \$4,080.34.
 - Road and Bridge Fund Telecommunications Gross Receipts Tax was overstated by \$6,057.09.
 - Road and Bridge Fund Motor Fuel Tax was understated by \$5,588.96.
 - Road and Bridge Fund Motor Secondary Road Remittances was understated by \$26,927.69.
 - Road and Bridge Fund Highway, Road and Bridge Expenditures were overstated and Debt Service Expenditures were understated by \$69,706.07.
 - Other Governmental Funds Communication Center Expenditures were overstated and Emergency Management Expenditures were understated by \$15,911.30.
 - Other Governmental Funds Transfers In and Transfers Out were both overstated by \$15,911.30.
 - Other Governmental Funds Telecommunications Gross Receipts Tax were overstated and 911 Remittances were understated by \$40,905.57.

Effect:

Inaccurate and incomplete information may be presented to the users of the annual financial reports.

Cause:

The County does not have an internal control system designed to provide for the preparation of the annual financial reports in accordance with the modified cash basis of accounting.

Recommendation:

We recommend that the County strengthen internal controls over financial reporting.

Views of responsible officials:

Other less significant errors were also noted in the County's annual financial reports.

We were able to correct the material reporting errors and therefore have issued an unmodified auditor's opinion on the financial statements contained in this audit report. However, users of the annual financial reports received information of diminished reliability.

RECOMMENDATION:

We recommend the County strengthen internal accounting controls over financial reporting.

Management's Response:

The Hand County Commission will undertake to encourage our county officials to avail themselves of the latest available and affordable training and technology necessary to assure accuracy in public funds accounting.

approval of
response.
←————→
Same as
prior audit
— Consensus —