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MAURICE C. CHRISTIANSEN, CPA
AUDITOR GENERAL

March 5, 1997

Governing Board
Hand County
415 West First Avenue
Miller, South Dakota 57362

This will confirm our understanding of the arrangements for our financial audit of the general purpose financial statements of Hand County as of and for the two years ending December 31, 1996.

Our audit will be a Single Audit conducted in accordance with generally accepted government auditing standards for financial audits as defined by the Comptroller General of the United States in Government Auditing Standards, Revised, 1994; the Single Audit Act of 1984; and the provisions of Office of Management and Budget Circular A-128, Audits of State and Local Governments; and, accordingly, will include such tests of the accounting records and such other auditing procedures as we consider necessary in the circumstances. The purpose of our audit is the expression of an opinion on the fairness of the presentation of the financial statements, in relation to generally accepted accounting principles, and to report on the Schedule of Federal Financial Assistance and on the county's compliance with laws and regulations and its internal control structure as required for a Single Audit.

If during the course of our audit we find that we are unable to express an unqualified opinion on the financial statements, we will notify you of the problems encountered.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations.

In planning and performing our audit for the two years ended December 31, 1996, we will consider the internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the county's general purpose financial statements and on its compliance with requirements applicable to major federal financial assistance programs and to report on the internal control structure in accordance with OMB Circular A-128, and not to provide assurance on the internal control structure.

We will obtain an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain policies and procedures that we consider relevant to preventing and detecting errors and irregularities that are material to the general purpose financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the general purpose financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on the internal control structure policies and procedures and, accordingly, no opinion will be expressed.

We will perform tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of the internal control structure policies and procedures that we consider relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the county's major financial assistance programs, or the largest nonmajor programs representing at least 50% of federal program expenditures. Our tests will be less in scope than would be necessary to render an opinion on the internal control structure policies and procedures and, accordingly, no opinion will be expressed.

We will inform you of any matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the county's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. We will also inform you of any reportable conditions or other matters involving the internal control structure, if any, as required by OMB Circular A-128.

Compliance with laws, regulations, contracts, and grant agreements applicable to the county is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we will perform tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance with such provisions, and we will not express such an opinion.

Our audit will be conducted in accordance with the standards referred to in paragraph two, above. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort; or earmarking; reporting; special tests and provisions; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to major programs occurred. The purpose of our audit will be to express an opinion on the county's compliance with the specific requirements listed in the preceding paragraph applicable to major federal financial assistance programs.

We will perform certain procedures to test the county's compliance with the general requirements applicable to its federal financial assistance programs as required by OMB Circular A-128. Our procedures will be limited to the applicable procedures described in the OMB's "Compliance Supplement for Single Audits of State and Local Governments." Our procedures will be substantially less in scope than an audit, the purpose of which is to express an opinion on compliance with the general requirements, and we will not express such an opinion.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Accordingly, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will apply our professional judgment to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. As required by the Single Audit Act of 1984, our audit will include tests of transactions related to federal financial assistance programs for compliance with applicable laws and regulations. However, because of the concept of reasonable assurance, and because we will not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud or defalcations, may exist and not be detected by us. We will inform you and the appropriate law enforcement officials of any such matters that come to our attention, and we will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

We understand that you will provide us with the basic information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about the application of appropriate accounting principles, and may assist you in the preparation of your financial statements, but the responsibility for the financial statements remains with you. This responsibility includes the maintenance of adequate accounting records and related internal control structure policies and procedures, the selection and application of accounting principles, and the safeguarding of assets.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the books and records. We may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters.

We understand that your employees will assist in locating any records and documents that we request for testing. If your employees cannot accomplish these tasks we will perform them at our standard hourly rates. This cost would be billed to you.

Our audit is not specifically designed and cannot be relied upon to disclose all reportable conditions, that is, significant deficiencies in the design or operation of the internal control structure. However, we will discuss with the appropriate personnel such suggestions and recommendations concerning the internal control structure, accounting methods, financial affairs and legal compliance that may occur to us during the course of our work, and will communicate them to you in compliance with state statute. We will, as required by SDCL 4-11, prepare and publish, at your expense, a legal notice stating that an audit has been completed, where a copy of the audit report may be found on file for public inspection, and if necessary, include a brief recital of the substantial items of error, irregularity or loss, in sufficient detail so that the public may be informed of the important findings of the audit.

We extend an option for you to formally respond to any findings and questioned costs that may be included in the audit report and will include your response, if made, in the audit report.

You are required to submit a copy of the audit report to each federal department or agency that provided you with direct federal financial assistance, and to any other entity that provided you with indirect federal financial assistance in the amount of \$25,000 or more. However, report filings with state agencies in Pierre, South Dakota, and the Federal Single Audit Clearinghouse will be made by the Department of Legislative Audit. We will provide you with a sufficient number of copies of the final audit report to fulfill your filing requirements. Generally, these filings must be accomplished not later than the last day of the thirteenth calendar month following the close of the most recent year being audited.

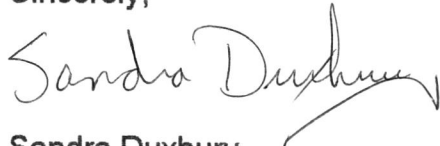
Our fee for these services will be based on the time actually spent at our standard hourly rate of \$36.39 as set by statute. Should unforeseen circumstances arise that would require a significant extension of our auditing procedures, we would discuss with you the specific matters involved before extending our audit scope and incurring additional costs. In such a case, this letter may need to be modified and reissued.

The audit report should be issued in final form not later than sixty (60) calendar days from the actual conclusion of fieldwork, but in any case not later than the last day of the twelfth calendar month following the close of the period under audit.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant items of our engagement.

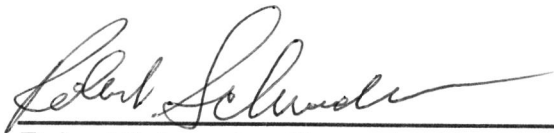
If this letter correctly expresses your understanding, please sign both copies where indicated and return the duplicate copy to us.

Sincerely,



Sandra Duxbury
Auditor In Charge

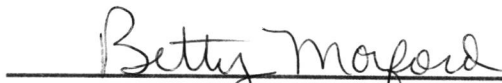
Approved:



Robert Schroeder, Governing Board Chairman

3-5-97

Date



Betty Morford, County Auditor

3/5/97

Date