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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

March 8, 2004

Coleen J. Schmidt, Assistant Finance Officer
City of Rapid City
300 Sixth Street
Rapid City, South Dakota 57701

Dear Coleen:

You have asked us to approve your governing board's selection of Ketel Thorstenson, LLP to perform an audit of the financial statements of the City of Rapid City as of and for the year ended December 31, 2003, and to provide you with a "written confirmation ... that there is no conflict". The following information is provided to assist you in understanding why we cannot provide you with the requested written assurance.

Government Auditing Standards (GAS), section 3.03, sets forth the following general standard related to independence:

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence.

Section 3.04 goes on to explain:

Auditors and audit organizations have a responsibility to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. Auditors should avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the auditors are not able to maintain independence and, thus, are not capable of exercising objective and impartial judgment on all issues associated with conducting and reporting on the work.

Under GAS, the auditor is required to report on the fairness of the financial statements, on internal control and on compliance with laws, regulations and the provisions of contracts or grant agreements.

GAS also indicate that it is the auditing firm's responsibility to ensure that it is independent in fact and appearance. We presume that if an auditor proposes to engage an audit, the firm will be considered to be independent under applicable auditing standards.

Ketel Thorstenson, LLP did prepare, and provide you with, an analysis of its ability to be independent under GAS's two over-arching independence principles considering the City's

transaction with KT Connections. Based solely on the information you provided to us, we believe that the analysis appropriately concluded about Ketel Thorstenson, LLP's independence under AICPA and Government Auditing Standards. We did point out that the analysis did not appear to address independence from the viewpoint of the auditor's responsibility to test and report on the City's compliance with laws, regulations and the provisions of contracts or grant agreements. This observation was communicated to you and to Mr. John Walker, CPA, Managing Partner at Ketel Thorstenson, LLP. We were not made aware of the results of that additional consideration.

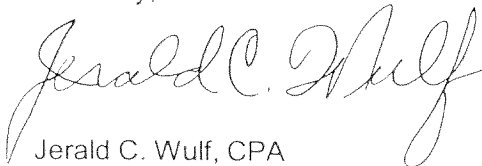
Based on information you provided to us, the transaction between the City and KT Connections is not likely to be quantitatively material to the City. Again, based on the information you provided us, we did not see any obvious reason to question whether the procurement (bidding) process was other than in compliance with statutory requirements. Of course, if we became aware of other information of which we are presently unaware, our conclusion with respect to the transaction could be affirmed, or could change.

Materiality, though, has another aspect, known as qualitative materiality. Qualitative materiality has more to do with the perception of a reasonable person who may rely on the auditors' report than with the magnitude of a transaction. We do not have enough information to be able to assess this aspect of the transaction between the City and KT Connections. Accordingly, we cannot definitely conclude or confirm that there is no perceived conflict by a knowledgeable third-party. That aspect must be considered and an appropriate conclusion reached by the City and Ketel Thorstenson, LLP. If Ketel Thorstenson, LLP is independent, it should not be necessary to have the SD Department of Legislative Audit or another auditing firm audit the transaction between KT Connections and the City, should that transaction be selected for testing as part of the audit of the City. In fact, to ask another auditor to test that particular transaction might imply to a third-party that there is a perceived lack of independence.

We believe that Ketel Thorstenson, LLP's integrity is high, and that (based on its latest Quality Review Report) its internal quality control policies and procedures are adequate to allow it to make the appropriate determination with respect to its independence under AICPA and GAS.

If you or others believe that there may be a material conflict of interest that would lead a reasonable person with knowledge of all relevant facts to conclude that Ketel Thorstenson, LLP is not independent with respect to an audit of the City of Rapid City as of and for the year ended December 31, 2003, the SD Board of Accountancy should be contacted for a ruling. The Board, not this Department, is responsible for applying and enforcing compliance with applicable auditing standards in South Dakota.

Sincerely,



Jerald C. Wulf, CPA
Director of External Audits

JCW:sld