

State Board of Internal Control Meeting Minutes

Date: 12/21/22

Time: 1:00 p.m.

Location: Room 414, State Capitol Building (4th floor), 500 E. Capitol Ave., Pierre, SD

1. Call to Order

2. Roll Call of Board Members

A. Jim Terwilliger called the meeting to order at 1:00 p.m.

B. Allysen Kerr called the roll

Members present:

- i. Kellie Beck – DOT
 - ii. Heather Forney – BOR
 - iii. Greg Sattizahn – UJS
 - iv. Brenda Tidball-Zeltinger – DSS
 - v. Chris Petersen – GFP
 - vi. Rich Sattgast – State Auditor
 - vii. Jim Terwilliger – BFM
1. Quorum is present

3. Approval of Meeting Agenda

A. Motion to approve agenda

- i. IT WAS MOVED by Heather Forney, seconded by Chris Petersen
- ii. The motion carried with a voice vote.

4. Approval of Minutes from Last Meeting

A. Motion to approve minutes from September 29, 2022.

- i. IT WAS MOVED by Chris Petersen, seconded by Rich Sattgast
- ii. The motion carried with a voice vote.

5. Recurring Discussion Items

A. **Sub-recipient Audit Notifications from Department of Legislative Audit (SDCL 1-56-9)**

- i. No findings this reporting period.

B. **GOAC Update**

- i. Jim Terwilliger provided an update on the recent GOAC Meetings:

9/18/22: BHR covered conflict of interest, TOUR agency performance measures, Accountability Record Tech Ed, GFP – invasive species, DHS Family support 360, DOE agency performance measures, and BOA annual report of obligation recovery center.

9/19/22: BOR financial records of university centers, SD 911 board, DOH life packet defibrillators, GOED and DOT performance measures, GOAC blue book, and followed by some discussion of pooled insurance.

12/5/22: TOUR and DOE follow up on agency performance measures.

Chris Petersen: Any discussion items of any follow up for legislative session.

Jim Terwilliger: No proposed legislation from GOAC meetings.

6. Internal Control Quarterly Report

A. Statewide

- i. Executive Summary – to date, rolled out to 11 agencies. During this reporting period, we had a Statewide response rate of 100% on those control attestations.
- ii. Combined Statewide Report - as a state we have identified 1,886 risks to date. For purposes of our program, we focus on the high priority risks to the state, or those that have a high or critical rating, and to date we have 258 identified or approximately 14% of the total risks.
- iii. Agencies are asked to document and implement controls for high and critical risks at a minimum, and to date 451 controls have been identified and documented.
- iv. During this period, we had 7 control issues identified – 6 of which are still open and are either in the process of review or have remediation plans in progress. Each internal control officer will talk about their respective control issues and remediation plans during their report.

B. Agency

i. Bureau of Finance & Management – Rachel Williams, Director

- a. Welcome from the Chair. Excited for her new role. 100% reporting for BFM and no control failures.

ii. Department of Revenue – Bobi Adams, Deputy Director

- a. In October, Ally and Bobi met with each of the DOR divisions and reviewed all 278 risks. This entailed eight 1-hour meetings with each of the divisions to do a deep dive into making sure we had identified all our agency's risks and implemented the correct controls. During each of the meetings control owners and the division's leadership team were asked to review risks to see if we had the correct language, category, impact, likelihood and risk ratings and when necessary, the correct controls in place. 18 risks were removed because they were identified as being a duplicate (Administration / Business Tax & Special Taxes). These reviews resulted in changes to:

- 49 Risk Categories (Public Perception, Technology, Operational, Compliance, Financial, Fraud)
 - 96 Level of Impact
 - 75 Likelihood a failure would occur in the event a control was not in place, resulting in 86 Risk Ratings Was: 50 High / 56 Critical; Now: 37 High / 31 Critical
- b. During the last attestation period 100% of our control owners completed their self-assessments on time, which has been a consistency for DOR.
- c. Out of the 68 controls reviewed during this most attestation period, our team reported four failures, upon review of the issues reported it was determined that two control owners within the Administration team had reported the same error, so I am here to report on the three failures.
- The first is regarding DOR's finance team not having permissions in both a DOR system and the state accounting system. Legislative Audit found in FY22, two of our staff, promoted from within our agency, had not been appropriately added to the Accounting Finance classification with our legacy systems. This resulted in a management letter not an audit finding from DLA.
 - REMEDIATION PLAN: This is a manual process completed by a DOR employee due to the limitations of our legacy systems. DOR is currently working with developers to establish a report which generates on a regular basis and provides an audit trail of adjustments that can be reviewed regularly.
 - The second has to do with the way case files are opened and assigned to staff attorneys. The legal secretary opens all case files and assigns them to the designated attorney. The attorney is then responsible for keeping the electronic file up-to-date and closing the file at the conclusion of the matter. Due to a turnover in staff, duties were temporarily re-assigned to an individual outside of the legal team.
 - REMEDIATION PLAN: We are in the process of finding a legal assistant, those duties will be reassigned as soon as the position is filled. In the interim, two members within the legal team have been assigned this duty.
 - The IRS conducts an onsite review every three years. No critical finds however there were minor findings that we need to remediate. Most had to deal with updates to Pub1075 and include a formal PII policy and changes in some documentation.
 - REMEDIATION PLAN: DOR is required to submit a correction action plan to the IRS by early summer 2023.

iii. Department of Tribal Relations – Hallie Getz, Finance Officer

- a. 100% completion for control owner self-assessments and 0 control issues for this reporting period.

iv. Department of Tourism – Hallie Getz, Finance Officer

- a. 100% control owner self-assessments and one control issue within the Art’s Council. The arts council staff continues to make good progress on remediating the issue and have been posting regular updates so that we can keep tabs on improvements within the state arts plan and associated policy handbook.

v. Department of Corrections – Danna Humig, Deputy Director

- a. For Quarter 2 DOC has 350 identified risks none have which have changed this quarter. We have nine program areas identified which are: Security, Admin/Policy/Communications, Grants, Finance, Juvenile, Parole, Pheasantland Industries, Classification and Programming, and Inmate Records.
- b. Of these we have 19 high and 1 critical risk. All of the assessments were completed on time and we had two failures. One being high, and one being critical. The failures were operational at the security level. The failures are due to high vacancy rates and low new applicants at the State Penitentiary. We continue to work on recruitment and retention strategies. We also recently implemented a new schedule which should help mitigate the risk.
- c. With DOC merging with Correctional Health, We plan to work on the Controls to make sure we are identifying any new risks.

vi. Department of School & Public Lands – Justin Nagel, Deputy Commissioner

- a. 0 Failures in the last 6 months. Size of the office is the biggest risk - 6 total staff. Detailed procedure documents and cross training staff. Commissioner Greenfield coming on board soon.

vii. Office of the State Auditor – Rich Sattgast, State Auditor

- a. The Office of the State Auditor, this office is broken into 3 main divisions, those being Accounting, Auditing, and Payroll. Collectively, they make up the functions of the office.
- b. Looking at the “Metrics” and starting with Risk by Type we identified 62 different areas of risk with nearly 60% of them being operational and 24% being compliance driven while 9 areas being Technological and 1 area being Financial. Under Control Owner Self-Assessments, we completed all of our self-assessment on time. With a rating of 100%. Identified 1 occurrence of non-compliance, where it was reported with 3 “Critical / High Priority Risks with an Identified Control Issue” - that is because that 1 control issue was tied to 3 critical risks. this failure was due to paperwork being submitted on

time, but after the paperwork had been submitted... it was realized that a portion of it was missing some required information, and while the paperwork was submitted prior to the end of the first quarter it did require a response from outside agencies to meet the necessary statutory requirements which exceeded the first quarter requirement for this matrix reporting purpose. But as of the July meeting, that issue had been cleared and as you will note, we have zero areas to report in Past Due Remediation Actions.

- c. We have not identified any Risk Priority Changes nor any New Control Issues by Risk Type and we have no Open Control Issues.

Heather Forney: ERP is in the Governor's Budget. Will this affect BOR?

Jim Terwilliger: Yes, in short. But we don't know what we don't know. Will have to review controls.

C. Single Audit Finding Discussion

i. Bureau of Finance & Management – Keith Senger, Director

- a. Addressing audit finding 2021-009: During FY21 the State spent a little over \$1 billion of the total amount received. Distributed about \$200 Million to cities and counties as subrecipients– about 300 entities. Granted over \$335 million to 5,629 small businesses. Granted almost \$154 million to healthcare facilities and providers. \$72 million to K-12 school. Gave \$43 M to the Unemployment insurance fund. Granted \$10 M for rental and housing assistance. Over \$10 M to post-secondary education. About \$825 million to third parties. The remaining amount was spent internally.
- b. Healthcare grants: Of the \$154 million - healthcare facilities 0 DLA determine 1 payment, 1 transaction, in error. State paid \$275,000 to the correct entity but the wrong Tax Identification Number or TIN as this specific health care provider has multiple TINs. Again, the amount paid was correct and the entity receiving the payment was correct, it was just issued under another TIN of that healthcare facilities.
- c. Small Business Grants: Of the \$335 million that was distributed to over 5,600 small business DLA identified that 14 small business grants that had calculation errors. As stated in the corrective action plan of page 275 of the Single Audit: 12 of the 14 have been resolved prior to the issuing of the Single Audit and since then the other 2 have also been resolved. Additionally, the state implemented a number of detective controls on the CRF small business grants including requiring the third-party vendor to perform a self-review and we also hired an additional third party to review the grant award process.

Chris Petersen: Thank you to BFM.

Keith: All states were given an almost impossible task to complete. SD April 2020 to get in out the door in 9 months. Had little to no guidance and then it would change by the time SD felt we knew what was allowable and low and behold 2 days before the grants were to be out the door they were extended. I take this audit finding as a pat on the back.

Jim Terwilliger: Thanks for those comments. Hopefully we don't have to deal with this any time in the near future. It was a lot of work thank you for making this happen.

Rich Sattgast: Not to keep tooting our horn but SD is lean and mean and had minimal staff to make this happen and I just want anyone out there listening to know the BFM team did a great job.

Jim Terwilliger: Thank you Keith.

7. Framework Project Update

A. Department of Social Services

- i. Kerr: about 95% done, and still chugging away with the last 2 of 8 divisions that have controls to document yet. I noted earlier in my Statewide report that we have identified 1,886 risks in total for 11 agencies. In DSS alone, we have identified nearly 600 risks with approximately 100 (or 17%) of those being high or critical – so trending right along with the statewide average. The sheer volume alone is a lot, let alone ensuring that adequate controls are documented.

B. Department of Health

- i. Kerr: I am just working with 5 of their 6 divisions to wrap things up. We broke DOH into 6 divisions for this project – Finance & Operations, Healthcare Access, Family & Community Health, Licensure and Accreditation, Epidemiology, and the Public Health Lab.
- ii. The Healthcare Access director had actually gone through our implementation process while she was at GF&P, so she was able to lead her team through this with ease, and was the first division to have everything completed.
- iii. I could definitely tell how much work DOH has put into strategic planning as they were not only organized, but really had a strong sense of direction for their agency and the objectives they are looking to accomplish in the coming years and that really helped our process.
- iv. Additionally, we hear about the importance of tone at the top in organizations, especially when it comes to internal controls, and Secretary Adam really exemplified that during this process which helped tremendously. She invited me to one of their all-staff meetings, so I spoke to the entire DOH agency on the importance on internal controls in their agency and I really appreciated the opportunity.

C. Next quarter activities

- i. Kerr: Next up for agency implementations is the State Treasurer's office, which I plan to begin after the New Year, and then the Department of Education, which we plan to start after Session.
- ii. Kerr: Next is discussing the future of this program post-implementation. We are nearing the halfway point with agency implementations, so after the New Year I am planning to work with our PwC consultants to start brainstorming what the future of this program looks like. This is something I have been thinking about for a long time, and initially when I took over, I assumed that we would document controls for all high and critical risks for each agency, then swing back around each agency again and document low and medium controls. But as I have progressed and got a little more experience in this role, I think there is way more value to the state in testing the controls we have worked to document for the high and critical risks.
 - a. Although agency control owners attest to these controls semi-annually, I feel like an independent validation would add confidence to ensure the documentation is in place, and that controls are operating effectively and as they should be.
 - b. Things I would plan to do during the control testing include: a walkthrough of the control from start to finish, ensure policies are up to date and being reviewed periodically, validating if the control documented is actually addressing the risk and also operating effectively.
 - c. I recently discovered that our internal control platform, Service Now, has the capabilities to help us with this testing and reporting. I have not been able to dig into all of the details yet, but with this board's support, I'd like to continue to go down this path and start researching and planning for the future of this program and what all of it looks like.
 - d. If any of you have any comments or suggestions on that, I'd be happy to hear them.

8. Other Discussion Items

1. None

9. Agenda Items for Next Meeting

- A. No discussion items for the next meeting.

10. Public Comment

- A. None

11. Adjourn at 1:43 p.m.

- A. IT WAS MOVED by Chris Petersen, seconded by Kellie Beck