State Board of Internal Control
Meeting Minutes

Date: 6/25/24
Time: 11:00 a.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 11:00 a.m.
   B. Allysen Kerr called the roll.
   Members present:
   - i. Kellie Beck – DOT
   - ii. Heather Forney – BOR
   - iii. Aaron Olson – UJS
   - iv. Brenda Tidball-Zeltinger – DSS (Excused)
   - v. Chris Petersen – GFP (Excused)
   - 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 Forney, seconded by Olson.
   - ii. The motion carried with a voice vote.

4. **Approval of Minutes from Last Meeting**
   A. Motion to approve minutes from April 5, 2024.
   - i. IT WAS MOVED by Forney, seconded by 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. **i. Department of Public Safety (1)**
        1. Childrens Home Society of South Dakota**:** Preparation of Consolidated Financial Statements and Consolidated Schedule of Expenditures of Federal Awards (SEFA). Reporting – Material Weakness in Internal Control Over Compliance. The Victim's Services final financial report was not completed and submitted until requested by the auditor. Pop-up trigger is now in place and will send out reminders to programs of due dates.

           Terwilliger: How many providers?

           Angie: 60

B. **GOAC Update**

    i. Jim Terwilliger: None

6. **Internal Control Quarterly Report**

A. **Statewide**

    i. Kerr: To date, our program has been rolled out to 18 agencies, with 1 currently in progress. Each agency onboarded has thoroughly documented their objectives, risks, and controls, all of which are subject to periodic revision.

    ii. Once onboarded, agencies attest to controls for high and critical risks semi-annually to ensure documented controls are implemented and effective. The following report details findings as part of the semi-annual attestations that are completed by control owners.

    iii. During this reporting period, we had a Statewide response rate of 99.9% on those control attestations. I really appreciate all our agency internal control officers keeping their teams accountable to completing these attestations!

    iv. During our internal control implementations with each agency, we tailor our risk assessment approach to align with each department's strategic plans and objectives; and help them identify department wide and program specific risks. As a state we have identified 8,354 risks to date – that is roughly double the risks from last quarter, and that is with the addition of the Board of Regents.

    v. After risks are identified, we have a risk prioritization workshop where we leverage standardized guidance to rate the likelihood and impact of the identified risks which will assign each risk a rating of low, medium, high, or critical. 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 1,629 identified or roughly 19.5% of the total risks.

    vi. Agencies are asked to document and implement controls for high and critical risks at a minimum, and to date 2,247 controls have been identified and documented.

    vii. During this period, we had a total of 81 control issues identified. I worked with each internal control officer to review their agency's respective control issues.

B. **Agency**

    i. **Bureau of Finance & Management - Rachel Williams**

        1. No issues in the control attestations for BFM. Look forward to helping BIT get onboarded to the program as their finance officer.

    ii. **Department of Revenue - Bobi Adams**

        1. DOR currently has 283 identified risks, that is up 5 from the previous reporting period. We will be setting up some time with Ally after the next reporting period to do a deeper dive of the risks and controls associated with Motor Vehicle and Finance as we roll out our new title and registration system in February 2025.

        2. During this attestation period 100% of our control owners completed their self-assessments on time. Out of the 178 controls reviewed, our team reported 7 failures.

3. With the increase in risks, DOR also had an increase in the number of controls. Within the last six months, our agency became aware of a situation in the motor vehicle division and while we were doing a deep dive, we determined that some risks had not been identified. We notated the risks, rated the risk impact, and based on their priority level implemented controls. Reported the new risks as failures because the controls had only been established within the last six months.
4. Of the other two failures reported by our agency, the first is in reference to a specific software system identified within a control that had not been updated prior to the attestation period. We had referenced the legal team using Filevine, a software system they no longer utilized to track case files since moving to an internal process.
5. The last one was an annual report that was not completed within the approved period. The property tax statistical report has been completed and is now posted to the agency's website.

iii. **Department of Tribal Relations - Wanda Goodman**
1. 102 risks same number as last quarter. 100% completed on-time.

iv. **Department of Tourism - Nicole Schneider**
1. 124 risks 100% completed on-time. Updated risks and controls.

   Forney: Did you add risks since it went from 55 to 124?
   Nicole: Correct.

v. **Department of Corrections - Danna Humig**
1. For Quarter 2 DOC has 361 identified risks which were not changed this quarter. We have ten program areas identified with various risk types, majority being operational. Of these we have 25 high and 6 critical risks. We had an 100% completion rate with one control failure in the security division.
2. The failure was due to low staffing levels. We have worked with a recruitment firm and BHR to increase our staffing levels. Our vacancy rate is the lowest it has been in three years.
3. Next week Allysen and I have a meeting to discuss our risk control matrix for security.

vi. **School & Public Lands - Justin Nagel**
1. ZERO instances of control failures.
2. Because the office of school & public lands has only six full-time employees, the biggest risk we continue to face is employee turnover and loss of operational know-how.
3. We are combating this risk by actively cross training our staff on essential operational duties. In January, we added a GIS Mapping Director to our team, and that position is tasked with creating and maintaining spatial maps of state-owned surface and sub-surface mineral acres across the State of South Dakota. This is

critical because the maps help our office keep track of existing well sites and lessees, while also enabling us to help identify parcels of land that are unleased that could be generating revenue for the State's schools.

    4. Additionally, just yesterday, our office hired our new Minerals, Oil & Gas manager for the office. This position is tasked with providing account management for existing lessees, reconciling royalty payments with well production, processing new mining and drilling nominations on unleased land, and coordinating online auctions two or three times a year with our Online auction hosts, EnergyNet.com.

  vii. **Office of the State Auditor - Rich Sattgast**
1. 62 risks 60% Operational 2 high risks
2. Control owner self-assessments 100%
3. Two areas of new controls will report on this next quarter.

  viii. **Office of the State Treasurer Jason Williams**
1. 3rd time reporting, 67 risks, 8 high risks, 1 missed attestation

  ix. **Department of Human Services - Greg Evans**
1. Tami Darnall new CFO who started in January.
2. DHS completed the Internal Control Framework Implementation process on Nov. 21st and had 19 control failures during that FY24 Q2 attestation process.
3. 10% of risks in FY24 Q2 had a TBD status for the control, meaning that we identified risks that either didn't have a control in place, the control needed some additional details added to strengthen it and make it more effective, or it needed to be formally documented.
4. Our DHS staff worked Allysen to document and implement new and effective controls for those that were in a TBD status during the last cycle.
5. DHS has 444 documented risks with 81 or 18.2% in the high to critical priority which is comparable with the statewide average of 15%.
6. To mitigate those high and critical risks, we have 89 documented controls, and I am happy to report that DHS had a 100% completion rate for our second round of attestations. DHS employees continue to work hard and uphold our standard of excellence.
7. DHS had 5 control failures during the FY24 Q4 attestation period, which is a huge improvement.
   a. Two failures for DDD were inadvertently marked as not implemented when in fact the controls are in place and were followed.
   b. Two failures were for not following the approval process for release of Information and data request.
   c. One other failure was relating to missing documentation in client records; however, the team plans to implement an audit process going forward.
   d. Three failures were repeat failures, two for DDD and one for SDDC and I will be working directly with staff to remove the failures in the next quarter.

   x. **Board of Regents - Karlee Rinehart**
1. The six universities, two special schools, and the BOR Central office started the Internal Control Framework Implementation process on August 7th, 2023, and completed the last workshop on February 20th, 2024.
2. We broke the universities into 7 divisions for this project – Academic Affairs, Athletics, Facilities, Finance HR Marketing, Foundation, IT, Research, and Student Affairs.
3. The central office was broken into – Finance, Regents Information system, HR Payroll, Academic and Student Affairs, General Council, Info & Government Regulation, Executive Director. All this work was done in 80+ workshop meetings – it was a very big undertaking!
4. The Internal Control Framework process was a great opportunity for the Board of Regents to identify areas where our current processes can we improved. This will also help push the importance of internal controls over all divisions. Thanks to Allysen Kerr for all her assistance during this process, she was very helpful.
5. BOR has 4,092 documented risks (or 48.9% of the statewide total) with 970 or 23.7% in the high to critical priority. This is comparable with the statewide average of 19.5%.
6. To mitigate those high and critical risks, we have 1,236 documented controls, and I am proud to report that BOR had a 100% completion rate for our first round of attestations. To display the gravity of getting these attestations completed, consider the fact that BOR had 1,142 attestations to complete. This shows that BOR employees continue to work hard and uphold our standard of excellence.
7. BOR had 66 control failures:
   a. We do have controls in place for many of the failures though they are not formally documented or as effective as they can be so we will continue to strengthen them.
   b. Around 30% of the control failures were due to turnover at DSU foundation with key staff members including the VPIA & President/CEO. We will work with him in the coming months to re-evaluate their RCM with the new leadership.
   c. Another reoccurring area of risk is IT. New controls are being implemented throughout the system to prevent data breaches, cybersecurity issues, and access controls to name a few in the ever-changing IT world.
   d. We will continue to improve and work to mitigate these issues in the future.

Terwilliger: Big effort; thanks for all your hard work and going through the process.
Beck: Great point that this process is not just finance.
Forney: Thank you to Ally and Karlee. FYI to the board, BOR had a board meeting and shared these findings. Board is excited with the progress.

7. **Framework Project Update - Kerr**

  A. **Department of Veterans Affairs**
     i. Kerr: We have continuing progress happening with the Department of Veterans Affairs. I wrapped up workshops with them a few weeks ago, so I look forward to them finalizing their documented risks and controls and plan to have them report in September.

B. **Bureau of Information & Telecommunications**
  i. Kerr: BIT has been selected to start the framework implementation next – I plan to meet with the leadership team on July 18th to kick off the process.

C. **Next quarter activities**
  i. Kerr: On June 14th I posted an RFP seeking consulting resources to replace PwC on this project. I've had a few firms reach out to me stating their interest in the project, so I am hopeful I will have additional help soon and we can expand our reach of this program. I am also strongly considering adding an FTE or two to the program as well.
  ii. I have been asked to report to GOAC on September 9th for our annual Work Plan.

D. **FY25 Work Plan**
  i. Kerr: This work plan is structured very similar to the work plan you approved last year. Each quarter, the meeting work will stay the same – we will cover sub-recipient audit findings and any single audit findings for agencies that are onboarded, we will cover GOAC updates, quarterly internal control reports and have discussions of current/future agency framework implementations. I plan to have Russ Olson from DLA discuss this year's single audit at our September meeting as well.
  ii. Typically, my goal is to implement the framework to one new agency each quarter beings that each implementation typically takes 7 to 8 weeks. I will kick off Q1 with BIT, but the rest of the year is marked TBD for a couple of reasons. First, I only have a handful of agencies left, so I want to accommodate to a timeframe that fits their schedule. Second, I will likely be involved in Project Bison so some of my time will be diverted to that and I will schedule implementations accordingly. And third, I am hopeful that I will add a new consulting team for help, so I will likely spend some time onboarding the successful applicant and getting their input on the current direction of this process. Additionally, Legislative session falls during the 3rd quarter, so I typically wait to decide on an agency until we see how session plays out.
  iii. I will be working on planning future implementations during the interim in an effort keep this program moving. We are so close to having all agencies onboarded, and I continue to facilitate reviews or refreshes for those who are currently onboarded to ensure we are staying current.

    Approval by Beck seconded Forney.

E. **Other Discussion Items**
  i. None

F. **Agenda Items for Next Meeting**
  i. None

G. **Public Comment**
  i. None

  ii. **Adjourn at 10:41 a.m.**
    i. IT WAS MOVED by Sattgast, seconded by Olson.