State Board of Internal Control Meeting Minutes

Date: 6/29/23
Time: 11:00 am
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. Keith Senger called the meeting to order at 11:02 a.m.
    B. Allysen Kerr called the roll
       Members present:
          i. Kellie Beck – DOT
         ii. Heather Forney – BOR excused
        iii. Aaron Olson – UJS
         iv. Brenda Tidball-Zeltinger – DSS
          v. Chris Petersen – GFP
         vi. Rich Sattgast – State Auditor
        vii. Keith Senger – BFM
            1. Quorum is present

3. **Approval of Meeting Agenda**
    A. Motion to approve agenda
       i. IT WAS MOVED by Beck, seconded by Sattgast
      ii. The motion carried with a voice vote.

4. **Approval of Minutes from Last Meeting**
    A. Motion to approve minutes from March 29, 2023.
       i. IT WAS MOVED by Petersen, seconded by Olson
      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. Department of Public Safety Cora Olson – Children's Home Society of South Dakota
          • Finding 2022-003: The instances identified regarding payroll are due to the transfer of information from the timekeeping system application to the payroll system application. The variances are typically insignificant (.01). SDVS conducts a thorough review and ensures that the discrepancies do not lead to an over request of SDVS funding.
          • Finding 2022-004: SDVS reaffirmed that CHS has policies in place, and they need to ensure the policies are followed.
             a. Senger asked about repeat finding. Is this an ongoing finding?

     b. Cora Olson: this is one instance of a failure to follow policy.

     c. Ally is going to meet with this team.

  B. GOAC Update

    i. Keith Senger provided an update on the recent GOAC Meeting Tuesday, May 2, 2023:

      1. Brand Board gave an overview of their 2022 annual report
      2. Department of Legislative Audit provided an overview of the FY22 Single Audit that was issued on March 31.
      3. Bureau of Information and Technology gave report on the performance measures
      4. GOAC report on Expulsion process

6. Internal Control Quarterly Report

  A. Statewide

    i. Kerr:

      a) To date, our program has been rolled out to 14 agencies, with 2 currently in progress. Each agency onboarded has thoroughly documented their objectives, risks and controls, all of which are subject to periodic revision. 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. During this reporting period, we had a Statewide response rate of 98.5% on those control attestations.

      b) 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 2,925 risks to date – that is up from 2,858 risks last quarter, and that is with the addition of the Treasurer's Office.

      c) 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 425 identified or approximately 14.5% of the total risks which is in line with the last few quarters.

      d) Agencies are asked to document and implement controls for high and critical risks at a minimum, and to date 698 controls have been identified and documented.

e) During this period, we had a total of 11 control issues identified – 8 of which are from this reporting cycle, and the remaining 3 are carryovers from last quarter that are either in the review process or have remediation plans in progress.

f) A new feature this reporting cycle is that if any control owners do not complete their attestations, those are marked as control failures and require a response before the issue is closed out. In total, we have 3 issues still open from those 11.

g) 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

- The first issue noted was in the executive management finance office. While the EMFO team is now fully staffed, turnover during the year and training new accountants put additional stress on staff time. All trial balance schedules for the major funds were completed, but some of the quarterly reconciliation work was not. (6001 through 12-31 & 6016 through 03-31). While this control was not fully executed, annual reconciliations will be completed soon and will include the timeframe not previously reconciled. An annual reconciliation will detect any issues that may have been missed by not completing the quarterly control, so this issue will be remediated, and the quarterly reconciliations will be completed going forward.

- The second issue was self-reported by our financial systems team. This control is related to the state's use of outdated systems. It is not a secret that the systems the state uses for accounting and reporting are quite old. We have personnel and programs that can convert data from these legacy systems into usable information for reporting purposes. These skills were not needed during the self-reporting period, so the control owner marked the control as not being implemented. The control was however available if needed.

ii. Department of Revenue – Bobi Adams

- As we move forward with the modernization project, we anticipate doing a more in-depth review of our motor vehicle risks and controls as we bring that project online. Currently, the majority of DOR's risks fall within the Operational, Compliance and Financial categories and of those risks 37 are High; and 31 are Critical. In the last reporting period, 69 self-assessments were completed, during this attestation period 17 members of our team completed 79 attestations, with 100% of the self-assessments being completed on time, which has been a consistency for DOR. One failure reported.

- This failure was also reported during the last reporting period. It has to do with the manner legal case files are opened and assigned to staff attorneys. As reported last time, when we first launch this technology solution, we had a legal secretary opened all case files and assigns them to the designated attorney. Attorneys were 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 the legal team, the duties were temporarily re-assigned to an individual outside of the legal team and then we had turnover in that position also.

- We recently hired a new legal assistant, and all members of the legal team attended a four-hour training on the software solution during a breakout session at our statewide meeting in April.

  a) Petersen: Does the process seem to work for new staff when they are onboarding?
  b) Bobi Adams: Yes. Each reporting period DOR has had turn over, where they had someone new doing the reporting. Making sure all control owners are still employed at DOR and any changes needing to be made are being done well in advance.
  c) Petersen: Sounds like you are managing it very well.

iii. **Department of Tourism – Allysen Kerr for Hallie Getz**
- We have identified 102 risks which a majority fall under operational and then some within public perception, compliance and financial.

- Most of our risk fall into the low and medium categories with just a few in the high and critical. We had 100% of our control owner self- assessments completed on time for this reporting period. There was one control issue within the Art's council division which has been identified in previous quarters as well.

iv. **Department of Tribal Relations – Allysen Kerr for Hallie Getz**
- We have identified 137 risks which fall into a variety of the categories with the largest chunk in operational and also a majority of our risks are low or medium.
- We had 100% completion for control owner self-assessments and we had 0 control issues for this reporting period. I applaud the control owners for taking these seriously and making sure that we have had 0 control issues for the last two reporting periods. We have chatted that early into the new fiscal year, we would like to sit down and go through both Tribal and Tourism, as some duties and assignments have changed.

v. **Department of Corrections – Brittni Skipper for Danna Humig**
- We had four failures. Three of the failures were due to no response from Warden Miller despite the reminder emails that were sent. The DOC identified

350 risks which were not changed this quarter. We have nine program areas identified which are:
1. Security
2. Admin/Policy/Communications
3. Grants
4. Finance
5. Juvenile
6. Parole
7. Pheasantland Industries
8. Classification and Programming
9. Inmate Records

- Of these we have 19 high risks and 1 critical risk. We had a 90% completion rate with one control failure. The failure was operational in the security level. The failure was due to minor injuries during training. Our trainers are certified in defensive tactics to mitigate risks of injury, but there is an inherent risk with this type of training. DOC has been working on updating our risk control matrix. We have updated risk ratings and identified new risks within the Security division. We are currently working on updating controls and identifying control owners.

vi. **School & Public Lands – Justin Nagel**
- Internal Control attestations on June 1st and the Office had 0 control failures. One of the biggest challenges and risks we face is employee turnover and loss of operational know-how. Nagel provided an example of a Land Sale Auction that was a high-risk area for the office. Auction went smoothly because of the processes in place. They will continue to cross-train our staff to create redundancies in knowledge and operational know-how, so these contingencies are minimal.

  (a) Petersen: Were all 7 staff members involved the on boarding training?
  (b) Justin Nagel: Yes, and we have had some turnover since then. Having former Commissioner Ryan Brunner in the Capitol still is very helpful.
  (c) Keith Senger: Thank you for sharing your example.

vii. **Office of the State Auditor – Rich Sattgast**
- Office of the State Auditor, this office is broken into 3 main divisions, those being Accounting, Auditing, and Payroll. 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. In the "Metric" Risk by Priority you will note that of those 62 types of Risk, 2 being of high risk and 11 being critical. Totaling nearly 21% being critical to high risk.
- Under Control Owner Self-Assessments, you will see that we once again have completed all of our self-assessment on time. With a rating of 100%

- We have not identified any Risk Priority changes; however, we are looking at possibly adding a few New Control Issues that I will discuss with Allysen in the near future. In addition, we currently have no Open Control Issues.
- We are continuing to review our Risks by Type, and my supervisors are continually reevaluating to identify any other possible risk types, and so with that I look forward to continuing to work with this board.

    viii. **Office of the State Treasurer – Jason Williams**
- We found a total of (67) risks. Of those 8 were considered high risk, 24 medium risk and 35 low risks in addition we have identified 44 mitigating controls. As we move forward over the next few months, we will continue to evaluate each risk priority rating and adjust as necessary. During the first Control Owner Self-Assessment we had 100% compliance.

- Several areas fall under high-risk categories such as making sure the general fund is adequately funded for daily business transactions, daily cash management, reliance on various forms of technology to do daily work at Unclaimed Property and Treasury Management, processing of receipts that have been received, and the importance of protecting Personal Identifying Information. Many of these concerns are greatly alleviated by having dedicated and trained staff equipped with the valuable knowledge of day-to-day operations.

- One high risk area for OST is that we need to prepare to transition these constitutional offices for the potential of a different elected official every 4 years. In our situation we were fortunate that Auditor Sattgast was the outgoing Treasurer and had worked thoroughly with his team to create a transition plan which was documented with extensive manuals and step by step explanations. Likewise, Treasurer Haeder has impressed upon us all the importance of building upon that transition plan so those who come after have a clear understanding of existing statutes, deadlines, and compliance.

C. **Single Audit Discussion – Keith Senger**
- State of SD and its Component units have a total of 8 audit findings is FY22.That is a pretty low number when it compared to surrounding states. 20 in FY21, 9 in FY20, and 7 in FY19
    - i. Science and Technology Authority
        1. Two audit findings - neither were a repeat
            a. Restatement of financial statement
            b. Federal grant related finding – no questioned cost
    - ii. Department of Transportation
        1. One audit finding – it is a repeat finding

a. Federal compliance - Internal controls of federal financial
                       reporting – no questioned costs
         iii. Department of Human Services
                 1. One audit finding
                    a. Federal compliance – subrecipient monitoring - no questioned
                       costs
         iv. Soybean Council
                 1. One audit finding – repeat finding
                    a. Weakness in preparation of final statements
          v. SD Public Broadcast
                 1. One audit finding – repeat finding
                    a. Weakness in segregation of duties
         vi. Corn Utilizations Council
                 1. Two audit findings - both repeat findings
                    a. Weakness in preparation of final statements
                    b. Weakness in segregation of duties

7. **Framework Project Update - Allysen Kerr**

   A. **FY24 Work Plan**
       i. This work plan is structured very similar to the work plan 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.

       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. This year will be a
          little different as I plan to tackle the entire Board of Regents – this includes each of
          the 6 Universities, the school for the deaf and blind, and the central office. Each of
          these 9 groups is basically equivalent to its own state agency so this will be a big
          undertaking. I have also planned to tackle Department of Human Services and the
          Department of Labor and Regulation as well, and have added on some extra PwC
          consultants help to get this achieved by the end of December this year.

       iii. We're starting this process for Quarter 1 with Department of Human Services and
          diving into the Board of Regents which will bleed into the 2nd quarter. Additionally, I
          plan to implement at the Department of Labor and Regulation in the second quarter
          as well. Legislative session falls during the 3rd quarter, so I typically wait to decide
          on an agency until we see how session plays out. And finally, during 4th quarter I
          plan to work with BIT to help them complete this program after session.

iv. Additionally, I will be working on planning future implementations during the interim in an effort keep this program moving. Motion to approve.

IT WAS MOVED by Petersen SECONDED Tidball-Zeltinger

(i) The motion carried with a voice vote.

B. Department of Education

i. The Department of Education has been the latest to implement the IC framework – we are just putting some final touches on their Risk and Control Matrix document, then we will be finished, and they can report in June.

ii. We broke DOE into 9 divisions for this project – College, Career, & Student Success, Child and Adult Nutrition, Learning & Instruction, History, Library Services, Accreditation & Certification, Special Education, Data & Research, and Finance, Management & Secretariat. They will present their results at the next meeting in September.

C. Department of Human Services & Board of Regents

i. Next up for agency implementations is the Department of Human Services and the universities at the Board of Regents. We had the internal control officer and agency leadership training with both leadership groups, and we plan to start the risk assessment process in 2 weeks.

8. Other Discussion Items - Allysen Kerr

A. Chris Petersen re-appointment to the board effective 6/14/2023

9. Agenda Items for Next Meeting

A. No discussion items for the next meeting.

10. Public Comment

A. None

11. Adjourn at 11:47 a.m.

A. IT WAS MOVED by Petersen, SECONDED by Beck