

State Board of Internal Control Meeting Minutes

Date: 6/30/22

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. Jim Terwilliger called the meeting to order at 11:00AM

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 Tidball-Zeltinger, 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 31, 2022.

- i. IT WAS MOVED by Forney, seconded by Petersen
- 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 Education – Cody Stoesser

1. YMCA Rapid City FY20 Audit and finding. 21st century grants used to run afterschool programs and summer school programs YMCA has two of these grants. The audit finding found two instances where wages were not properly verified. They did a corrective action plan. Department of Education accepted part of the corrective action plan and did request more information on how that process played out. The audit report indicated similar problem, but only similar in that it is payroll testing errors. DOE does both physical and programmatic monitoring on these grants and with all grantees. This audit

finding not necessarily part of the scope of DOE reviews of the grant. DOE does rely some on auditor reports to help find errors.

- a. Sattgast: In payroll do you do an annual review? Stoesser: This is the programs payroll not our payroll. We do request information on their payroll and check at the close out of the grant and do follow up monitoring to ensure it is coded correctly and to see if we need to follow up on anything.

ii. Department of Social Services - Jason Simmons

1. Subrecipient finding for Lutheran Social Services audit ending June 30, 2021. Three findings dealing with financial reporting. First finding a material weakness relating to preparation of financial statements and material audit adjustments. Two significant entries not recorded correctly, for which they did training. After training Social Services then finds LSS in compliance.
 - a. Terwilliger: Is this a recurring issue? Simmons: Not a recurring finding though Lutheran services has had other findings in previous years LSS had a finding.
2. Significant deficiency in internal control of compliance in procurement, suspension, and debarment. Their procurement policy did not include all the necessary elements outlined in uniform guidance. Vendors were not checked against national registry at start of contract or throughout contract period. Auditors recommended to implement procedures to follow federal uniform guidance. LSS reviewed policies and reviewed all applicable vendors to make sure in compliance.
 - a. Petersen: Does the federal government have specific language about debarment that needs to be included in the contract and signed agreements, and then checking that entity against the federal database for debarment? Simmons: Yes, that is correct.
3. Significant deficiency in internal control of compliance was into some matching. Foster care grant. Organization recorded items that should not have been included in the match expenditures. The organization overlooked match expenditures for a workshop. The auditors recommended to review procedures over match requirements. The organization did review procedures.

iii. Department of Labor – Emily Ward/Kendra Ringmaster

1. These 2 are part of same audit report for Lutheran Social Services. Has been provider of services for over two decades. The finding said that LSS does not further determine age eligibility past their intake form. Program does not require double and triple checking of age eligibility. DOL disagrees with this finding. LSS has implemented additional reviews into their process, however, DOL felt confident in their process and does not feel changes are needed.

- a. Tidball-Zeltinger: Can you talk us through the process with Legislative Audit with you disagreeing with this audit? Ward: DLA contacted DOL about this audit finding and indicated that DOL needed to reach a management decision. DOL reached out to DLA saying they did not agree with this audit finding and asking what else they needed to do. DLA indicated that DOL could issue a management decision stating that they did not agree with the audit finding, and that is what DOL did.

iv. South Dakota Housing Development Authority – Lorraine Polak

1. LSS as it pertains to the emergency assistance rental program. LSS is a subrecipient of emergency payments for housing. This program is a new program which is also a covid response program. LSS is 1 of 10 subrecipients in this program. This is a new program, and this is the first finding for this program for LSS. The audit finding stated that the recipient's income was not fully supported. Income eligibility is a requirement of the program. Once proper documentation was received the household income was determined to still be eligible. No questionable costs with this finding. LSS submitted their procedures and since it is a first-time program and there was no questionable costs SDHDA has excepted their documentation.
 - a. Sattizahn: This is the 3rd finding for this same entity, is there some kind of coordination with other agencies to see what is going on with other findings? Polak: We went to other agencies we work with, so in this situation we did not reach out to other state agencies because we already had a relationship with them.
 - b. Forney: Do you have some kind of handbook for subrecipients to help walk through as you discover issues? Polak: We do have a policy and procedures manual we do provide to subrecipients of this program, and we are updating it continually.

Kerr - We talked to LSS about having them attend this meeting. Unfortunately, they were unable to join us this time, but we plan to have them come to one of the next meetings to discuss these findings as they continue to have findings and repeat findings.

v. Department of Public Safety (3) – Angie Lemieux/Cora Olson

1. East River Legal Services 2021 audit report's first finding was procurement and debarment of services. East River did not verify a vendor with a transaction over \$25,000. DPS have since received an updated policy from agency, and that they are following the new policy. Regarding money and matching - the review concluded that East River had one person reviewing money. East River is reviewing their policy and will be making changes, but the policy still needs to be submitted and approved by East River's board. We only look at policies after they are reviewed by the board. We cannot provide

them with guidance or language in their policy, and that would be in the handbook for them.

- a. Forney: You mentioned there is a policy that will be reviewed at their next board meeting. When is that? Olson: I believe that is in July. Before we can accept their policy, it has to be drafted, reviewed and approved by their board. Then DPS will receive a copy of the policy.
 - b. Forney: Have you seen a draft of the policy? Olson: DPS does not review drafts.
 - c. Forney: What happens then if you get the policy and do not agree with it, do you have to then wait for it to go back before another board meeting? Beck: Have you had conversations with them on what they are going to put in their policy? Olson: DPS cannot make recommendations on the grantee's procedures aside from specific language that it needs to include which is in the handbook we provide to them. We can't write their policies for them.
 - d. Jim: Once you get the policy from East River can you provide a copy to Ally and comment on whether you agree with the policy or not. We can then circle back to this at our next meeting to make sure it is all "buttoned up". Board Members agreed.
2. Children's Home Society's audit finding is regarding payroll hours selected for review for hours that were allocated to account for different than the hours that were paid and for independent review that there was no documentation of when the review was performed. The hours differed from hours used. This is a repeat finding for this organization. Our organization has worked with them. Children's Home Society has a very manual payroll process. They are getting better with each review. DPS has a system to flag over requesting of funds. DPS doesn't consider under requesting because that comes out of their own funds.
- a. Tidball-Zeltinger: Has there been any talk to help automate some of the processes? Olson: DPS has spoken to them about having an automated system. I can't speak to why they haven't implemented that. We have made that recommendation to them.
 - b. Tidball-Zeltinger: Perhaps we can have an agency discussion with DSS/DPS to help them a bit with options to make it happen.
3. Heath Freedom finding was regarding material weaknesses internal control over compliance on allocating the amount between two different grants. Health Freedom has updated their policies, and updated percentage allocations to correct this. Health Freedom didn't over request it was just they had the wrong amount to each grant.

- a. Tidball-Zeltinger: Was this an issue where there was no documentation for the personal, or was the documentation not consistent for what the allocation was? Olson: I believe they were unable to produce the backup documentation. The documentation is stored on our system; however, I am not sure if they considered this when doing the audit. The procedure was changed for them to store their own backup and be able to produce it for both DPS and the auditors.

The next audit finding was for allowed and allowable costs. This was undercharged to the grant. DPS only worries about overcharged to grants.

Audit finding 7 matching and matching support. The backup documentation issue, which is a policy issue. The policy has been updated.

Audit finding 8 for procurement. This was a policy issue that they have provided the policy for.

Audit finding 9 regarding procurement, suspension, and debarment. The organizations procurement form didn't have an independent review. Would not be identified through DPS's regular processes. Organization didn't have several documentations retained.

- b. Sattgast: Contractor registry...Is that the one maintained by BFM, or is that a separate registry? Lemieux: I think you are talking about the debarment registry on Sam.gov. I don't believe at this time the state of South Dakota has their own debarment registry.
- c. Forney: Just a comment that I appreciate very much that you are looking and recording and tracking the documentation that is necessary. That gives me some level of comfort that you have done your due diligence.

B. GOAC Update

- i. Jim Terwilliger provided an update on the May 18th, 2022, GOAC Meeting
 - 1. Had 3 items on agenda
 - a. DLA reviewed the Single Audit Report
 - b. Brand Board Review
 - c. Department of Corrections to discuss their systems operational review that was done by an independent contractor
 - 2. Next meeting is July 20th, 2022.

6. Internal Control Quarterly Report

A. Statewide

- i. To date, our program has been rolled out to 11 agencies. During this reporting period, we had a Statewide response rate of 98.1% on those control attestations.
- ii. 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 1,669 risks to date.
- iii. 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 259 identified or approximately 16%.
- iv. Agencies are asked to document and implement controls for high and critical risks at a minimum, and to date 409 controls have been identified.
- v. During this period, we had 13 control issues identified – all but 5 of those have been closed out, and those 5 that are still open are being reviewed or have remediation plans in progress.

B. Agency

i. Bureau of Finance & Management – Matt Flett

1. FY22 4th Quarter Internal Control Report: 187 document risks, which have remained unchanged since FY22 2nd Quarter. Out of the five risk types, operations continue to be the highest risk at 65.8%, followed by compliance at 14.4%, financial at 12.8%, technology at 7%, and 0% for public perception. Risk by type has remained unchanged for several quarters now.

For the risk priority out of the 187 risks identified, 13.9% were rated higher/critical, 58.3% are rated medium, and 27.8% are rated low. These ratings have remained unchanged from previous quarters.
2. One metric has changed for BFM during the 4th quarter. Controlled ownership assessment of completing on time of 100% to 90.5%. During this time, BFM was down BIT workers as 4 out of 6 positions have been advertised for openings. This caused duties to be shared among current employees and missing one deadline but completed the following day. This is not a BIT issue, but a BFM issue that is being currently resolved. BFM will continue to make it a priority to finish on time. BIT will be fully financed within the next month and take some of the duties off EMFO.
3. Petersen commented with each agency's position of retirement significant or high turnover, our reports reflect some of those challenges in the quarter or few quarters after the new people come on board. The system is becoming usable as the new staff comes in. It could help identify any risk inside the organization and look at some of the risk areas.

ii. Department of Revenue - Bobi Adams

1. DOR has 296 risks that have been identified, of that DOR has 169 controlled. They have multiple moving parts and 20 individuals working through these parts. During this time, DOR had 2 failures reported.
 - a. The first issue has already been resolved and updated. 2 different teams review the motor vehicles for payments that come into DOR. The 2 teams use 2 different systems for their review, which are the explore system and the cedar system of reporting the money that is coming in. The previous procedures were confusing to the person who was in charge of reporting the money and therefore provided a failure in this section. This allowed DOR to review the procedures, clarify, and make corrections to the procedures.
 - b. The second issue involved the securities of motor vehicle data records. There has been a request from other entities to DOR for some of the records. DOR has been moving the request forms to an online submission and paper forms. The procedures that are placed for all forms are into a searchable file directory. During this transition, DOR found out the online submission was being filed correctly, and the paper forms were not and were being filed in a filing cabinet. DOR is currently in the process of making changes in updating its procedures, making sure documents are being scanned, and then uploaded to the file directory as they should be.
2. DOR was one of the first agencies that started with internal control procedures and started in 2018. Contacted Ally to help look at our procedures and help identify any risk. DOR has re-evaluated the risk factors that have played a role in the 296 risks that were identified and taken a step back on how they could make changes to help DOR and the state of South Dakota.

iii. Department of Tribal Relations - Hallie Getz

1. After year-end, Getz will be reviewing all the identified risks and controls that DTR has in place. There are 137 risks that have been identified, with the largest number of risks identified in operation, while the other categories are considered low or medium. 2 reporting issues occurred during the current reporting period:
 - a. The first issue was related to an employee development plan. The department recently had new employees and was unable to complete the training. However, Allysen Kerr has created a plan for the agency to help them and has 6 months to complete it.
 - b. The second issue was an internal control the agency had set up by reviewing their monthly call log. With the turnover of employees,

they were unable to have their monthly meetings in April or May. However, this was corrected at June's meeting, and reviewed all call logs going back to March. They have fixed the issue by placing a calendar meeting once a month to ensure the reviews are being completed every month.

2. Petersen asked when did we onboard Tribal Relations? Was it 2021? Kerr responded it was last year during the legislative session.

iv. Department of Tourism - Hallie Getz

1. The board heard from Deputy Secretary Wanda Goodman in December, and nothing has changed since then. There were 102 risks that were identified, which were operational, public perception, compliance and financial. The majority of these risks fall into the low category, with a couple in the medium, high, and critical.
2. There has been one control issue that has been identified in previous quarters, which is in the art division. The risk is there is no agency policy regarding the state's art plan, and control is the annual review of the plan. The plan is near completion of the plan and will last for 5 years for both fiscal and calendar years 2023 through 2027. The advisory board will work with staff in a planning strategic meeting in July. Once completed, they will publish a copy to the public in 2023.

v. Department of Corrections – Danna Humig

1. For the 4th quarter, DOC had 350 identified risks, none of them have changed this quarter. There are a total of 9 program areas there were identified within DOC. Out of all the programs, there were 9 high and 1 critical risk. All the assessments were completed on time and had 4 control failures. The failures were operational at the security level.
 - a. One of the failures was due to a staff injury during annual training. The employees were reminded of the controls that have been placed to keep groups small with the number of staff members. The other failures were due to high vacancy rates and the low application rate of new employees for these positions.
2. DOC has had several changes over the past couple of months. With new changes occurring, DOC will review its control procedures and make corrective changes to reflect the new changes. This will be happening over the next couple of months.

vi. School & Public Lands – Justin Nagel/Ryan Brunner

1. Ryan Brunner: School and Public Lands had set up internal controls last winter and what do we need as internal control as an office and or the transition of new staff and commissioners. This setup should help identify

where the risk is, be aware of what should be done, and help keep the office moving in the correct direction.

2. There were 78 risks that were identified, only 3 were considered higher or critical risks.
 - a. An example of a risk is dealing with our accounts and making sure the money is being recorded in the proper account.
 - b. Another example is making sure all our leases are being reviewed by the Attorney General's Office due to SPL not having their own attorney for the review of leases.
 - c. A final example is reviewing the land sales. There are specific guidelines stated in the constitution that SPL must follow when selling land. They have a checklist to help make sure they are following these guidelines.
3. Justin Nagel: One of the 3 risks that were considered critical was new employee transition.

vii. Office of the State Auditor – Rich Sattgast

1. The staff members in the Office of the State Auditor were nervous to start this process, but with help from Allysen Kerr and Michelle, it made the process go smoothly. This was started back in January, and over several weeks, there were areas already identified as potential risks.
2. There were 62 identified areas of risk, of which 24 are compliance and 60% are considered operational. In the metrics risk of priority with 62 risks, 2 were considered high, and 11 were considered critical risks. OSA had 1 controlled issue that was identified and tied with the 3 critical high risks. By risk type, it listed 4 new risk types but only 3 were accounted for since they are considered critical risks.
 - a. Failure was due to paperwork being submitted on time. After the deadline, it was realized some of the paperwork was missing information that needed to be included with the file. Some of the information needed according to statutes come from 3rd parties outside state entities, which could take up to 3 to 4 weeks of reviewing and receiving the proper information. Not having all the proper information at the deadline exceeded the due date causing this information to be late.

C. Single Audit Finding Discussion

- i. The Single Audit Report was issued on March 31st. Two of our onboarded agencies had financial statement audit findings.
- ii. The Department of Revenue had three findings: Inadequate internal controls over the distribution of snowmobile license fees, Inadequate internal controls over cash

receipting, and Inadequate internal controls over the distribution of local government highway and bridge fund.

iii. Department of Revenue – Bobi Adams

1. First finding is relating to the snowmobile license fees. This finding relates to a law change that occurred in 2012. The law change relating to snowmobile registration to every 2 years to every year transaction. One component was changed, but the distribution to Game, Fish, and Park did not change. When the law changed the dollar amount from \$20 to \$10, DOR didn't change the percentage of their distribution, keeping a dollar and sending \$9 to GFP. The statute says DOR should be keeping \$2 of the fee and putting it back towards the motor vehicle revolving fund. DOR has made the corrections in the system to reflect the statute and has worked with GFP for changes in the 2021 time period and moving forward. The rest of the money was sent to GFP and spent to fix trials.
 2. The second finding is related to moving information over into systems instead of manually entering information. This issue relates to DOR local government and highway bridge fund. The distribution is not completed in the same system. DOR is taking information from one system and manually entering it into an excel spreadsheet. When the information was transferred, an error occurred and caused issues with distribution to local governments. Once this was detected, DOR worked directly with each entity that received a distribution and called any that were overstated. This issue occurred in May and was resolved by July. Moving forward with our corrective action, there are 2 individuals accountants independently doing the distribution and reviewed by a 3rd party, such as a manager of the team.
- iv. The Bureau of Finance and Management had one finding: 1) Ineffective Internal Controls over Financial Reporting which is a repeat finding from last year.

v. Bureau of Finance & Management – Amanda Werre/Mark Edwardson

1. BFM's main objectives in the Accounting and Financial Reporting office are to issue a materially accurate Annual comprehensive Financial Report (ACFR) within 6 months of the close of the fiscal year and prepare a materially accurate Schedule of Expenditures of Federal Awards (SEFA). These objectives were met and included an unmodified opinion letter for both ACFR and SEFA that was issued by the Department of Legislative Audit.
2. BFM and all state agencies were able to work together and eliminate a report of the FY20 audit finding in SEFA. However, there was a repeat statewide financial audit finding issued by DLA for ACFR. This finding is a statewide finding that encompasses the entire state. The state had strengthened controls over numerous areas in addition to the FY20 audit finding. However, for FY21, there were additional areas of concern that increased the risk of material misstatements in the ACFR.

3. BFM is continuing to work and eliminate these findings by increasing training for ACFR staff, continuing to find efficiency and build checks in our exhibits and Smart View queries, re-evaluating the process for Trial Balance Comparisons, met with DLA to discuss how to improve, increasing reviews by more experienced staff, and holding trainings for accountants in other agencies.
4. It has been the State's goal years ago to eliminate the financial reporting audit findings. In recent years, our office within BFM has run into some difficulties. These difficulties would include:
 - a. Retaining accountants across the state government. In our office, it's more difficult since our tasks are completed once and year and take a few years to become proficient. When we do lose a staff member, we lose the critical thinking component that comes with experience. Other businesses are actively recruiting and hiring state accounting staff, and all state agencies have accounts that work on ACFR, so their turnover also affects the ACFR process.
 - b. Hiring new accountants. An example is our office recently posted 2 position and only received 5 applications. Of the 5 applications, only 3 of those had accounting degrees.
 - c. Governmental Accountant Standard Board Guidance (GASB) has changes that must be implemented. Some of these changes are affecting prior guidance, such as GASB 54 and GASB 87, and how they were being reported.
5. Petersen commented on GASB 87 that is entailed with GFP. GFP has significant lease agreements with payments going out and payments coming in. It would be impossible for an agency to keep track and handle all the changes to prepare the financial statement without the help of BFM. Even though there is a repeat finding, there is an understanding of the potential of rules changing that could affect how the financial statements are reported.
6. Allysen Kerr noted there was one more state finding referring to the Coronavirus Relief Fund. Keith Senger will discuss this finding at the September meeting.

7. Framework Project Update (Allysen Kerr)

A. FY23 Work Plan

- i. This work plan is structured very similar to the work plan approved last year. Each quarter, the meeting work will stay the same – we will cover sub-recipient audit findings, single audit findings for agencies that are onboarded, GOAC updates, quarterly internal control reports and have discussions of current/future agency framework implementations.

- ii. The goal is to implement the framework to one new agency each quarter. We're starting this process for Quarter 1 with Department of Social Services and will follow with Department of Health in the 2nd quarter. Legislative session falls during the 3rd quarter, so we typically wait to decide on an agency until we see how session plays out. And finally, during 4th quarter Department of Education will complete this program.
- iii. Motion to approve FY23 Work Plan
 - 1. IT WAS MOVED by Beck, seconded by Sattizahn
 - 2. The motion carried with a voice vote.

B. Department of Public Safety

- i. Department of Public Safety was the 11th agency onboarded - those results will be included in next quarters reporting,

C. Department of Social Services

- i. Department of Social Services has been selected to implement the IC framework next, and work started this week.

8. Other Discussion Items

- A. Brenda Tidball-Zeltinger Re-appointment to the Board
- B. Jim Terwilliger thanked Allysen Kerr for all her hard work during her personal challenges that she has faced over the past couple of months as her family lost their home due to a fire.

9. Agenda Items for Next Meeting

- A. No discussion items for the next meeting

10. Public Comment

- A. None

11. Adjourn at 12:26 pm

- A. IT WAS MOVED by Petersen, seconded by Sattizahn