State Board of Internal Control Minutes

Date: 6/29/26
Time: 10:30 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**
   - Jim Terwilliger called the meeting to order at 10:30 a.m.
   - Allysen Kerr called the roll.
     Members present:
     - Kellie Beck – DOT
     - Heather Forney – BOR
     - Amanda Jost – BIT
     - Brenda Tidball-Zeltinger – DSS
     - Rich Sattgast – State Auditor
     - Jim Terwilliger – BFM
       - 1. Quorum is present
   - Terwilliger: Chris Petersen is termed out for the Board of Internal Control. Will be selecting a replacement before the next meeting. Thanked Chris for his service to the Board.

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

4. **Approval of Minutes from Last Meeting**
   - Motion to approve minutes from March 25, 2026.
     - Sattgast noted that he was excused, absent. Change will be reflected in approved minutes.
     - IT WAS MOVED by Beck and seconded by Tidball-Zeltinger.
     - 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. West River Transit Authority – DOT (Jess Marlow)

(a) The Board reviewed an audit finding for Prairie Hills involving a material weakness in internal control related to three instances of payroll being processed without adequate review or approval. Prairie Hills submitted a corrective action plan requiring the Executive Director or Associate Director to review and approve all payroll prior to processing, which was accepted by the Department. A follow-up on-site review is scheduled for September to assess implementation of the corrective action and overall financial and operational practices.

ii. Youth & Family Services – DOE (Cody Stoeser & Alan Haarstad)

(a) The Board reviewed a Child and Adult Care Food Program (CACFP) audit finding involving a small discrepancy in sampled snack reimbursement claims, where 20 of 89 claims were found to be incorrect, likely due to a data entry or documentation issue. The program serves a high volume of meals statewide, and while the questioned amount was minimal, the Department emphasized all

findings are treated seriously. Corrective actions were implemented, including strengthened review procedures and improved documentation and forms to reduce future errors. The program is subject to routine compliance reviews at least every three years, with follow-up as needed, and all findings are addressed through corrective action.

b) **GOAC Update**: BFM to present annual internal control report to GOAC on 6/30/26

c) **Single Audit Findings Discussion – DLA (Russell Olson, Auditor General)**

(1) Olson presented the Fiscal Year 2025 Single Audit, noting it was completed by the March 31 deadline and resulted in an unmodified opinion on the State's financial statements. He explained that audit findings are a normal part of the process and help strengthen internal controls, and he recognized the State Board of Internal Control and Internal Control Office for improving statewide risk management and coordination with Legislative Audit.

(2) The audit included 18 findings, primarily related to federal grant programs, with eight material weaknesses, nine significant deficiencies, and one noncompliance issue. Olson reported that most prior-year findings have been resolved and emphasized that remaining or repeat findings often reflect timing of implementation and ongoing corrective action. He also noted that Legislative Audit monitors emerging fraud risks and updates audit procedures, accordingly, stressing the importance of strong internal controls, prevention, and communication.

(3) Olson encouraged continued collaboration and continuous improvement across agencies and noted that while a zero-finding single audit is possible, it is rare given federal complexity. The Board thanked Olson and Legislative Audit staff for their work and continued partnership.

6. Internal Control Quarterly Report – BFM (Allysen Kerr, Director of Internal Controls)

a) **Statewide:**

(1) Kerr provided an update on the statewide internal control framework, noting it is fully implemented at 28 agencies, with one onboarding and another preparing to begin. Agencies maintain documented objectives, risks, and controls that are reviewed annually to support accountability and continuous improvement.

(2) Agencies are required to complete semiannual attestations for high and critical risks. During the most recent cycle, 2,670 attestations were sent to 548 control owners, resulting in a 98.4 percent completion rate.

(3) Statewide, 14,035 risks have been identified, with 2,763 rated high or critical and 3,779 controls in place to address them. During the quarter, 175 control issues were identified, reflecting ongoing monitoring within a maturing system. All issues are reviewed with agencies, corrective actions are documented, and reports are issued outlining remediation steps.

7. Agency

i. Bureau of Finance and Management – Morgan Gruebele

a. Risks: 371 documented risks
b. Completion: 100% attestations on time
c. Controls: 95 documented controls
d. Issue: 0 Control Issues

ii. Department of Revenue – Morgan Deis

a. Risks: 302 documented risks
b. Completion: 100% attestations on time
c. Controls: 163 documented controls
d. Issue: 2 Control Issues
e. Comments: None

iii. **Department of Tribal Relations - Hallie Willey**
   a. Risks: 124 documented risks
   b. Completion: 100% attestations on time
   c. Controls: 14 documented controls
   d. Issue: 0 Control Issues

iv. **Department of Tourism – Hallie Willey**
   a. Risks: 102 documented risks
   b. Completion: 100% attestations on time
   c. Controls: 10 documented controls
   d. Issue: 1 Control Issue

v. **Department of Corrections – Emily Trujillo**
   a. Risks: 513 documented risks
   b. Completion: 100% attestations on time
   c. Controls: 110 documented controls
   d. Issue: 34 Control Issues
   e. Comments: Forney raised concerns about repeat control issues and asked about efforts to reduce them. Trujillo responded that staff turnover in 24-hour correctional facilities remains the primary challenge and that onboarding and training have been strengthened to improve understanding of control responsibilities. She noted strong leadership support for the internal control program, citing a 100 percent attestation completion rate and increased training participation. She also explained that expanded risk assessments have contributed to an increase in identified issues as more controls are actively monitored. Forney emphasized the importance of leadership commitment, continuous improvement, and ensuring the process is not treated as a compliance exercise.

vi. **School and Public Lands - Justin Nagel**
   a. Risks: 105 documented risks
   b. Completion: 100% attestations on time
   c. Controls: 5 documented controls
   d. Issue: 0 Control Issues

vii. **Office of the State Auditor – Rich Sattgast**
   a. Risks: 118 documented risks
   b. Completion: 100% attestations on time
   c. Controls: 54 documented controls
   d. Issue: 0 Control Issues

viii. **Office of the State Treasurer – Mitch Krebs**
   a. Risks: 107 documented risks
   b. Completion: 100% attestations on time
   c. Controls: 57 documented controls
   d. Issue: 1 Control Issue
   e. Comments: Krebs reported a control failure related to onboarding the new Unclaimed Property Administrator and noted that corrective actions have been implemented, including background checks for all new hires. The background check requirement will also be extended to existing Treasury Management staff. The corrective action is expected to be completed in August, and the office will continue working with the Internal Control Office to strengthen onboarding and internal control processes.

ix. **Department of Human Services – Michael Helgerson**
   a. Risks: 428 documented risks
   b. Completion: 100% attestations on time
   c. Controls: 99 documented controls
   d. Issue: 3 Control Issues

e. Comments: Helgerson reported three high or critical control issues at the South Dakota Developmental Center related to documentation, progress reporting, and a medication compliance matter. Corrective actions included staff follow-up, retraining, updated action plans, and improved documentation review. The Department of Health confirmed the facility is now in substantial compliance, with all deficiencies corrected and no open control issues or overdue remediation items at quarter end.

x. Board of Regents – Kayla Bossly

a. Risks: 4,088 documented risks
b. Completion: 100% attestations on time
c. Controls: 1,224 documented controls
d. Issue: 18 Control Issues
e. Comments: Bossly reported 17 initially identified control failures, seven of which were due to incorrect attestation responses, leaving 10 actual control issues. Five were initially considered repeat issues; however, three were determined not to be repeats due to communication issues between multiple control owners. The remaining two repeat issues were tied to a control not yet implemented due to construction and equipment delays, with completion expected by the end of 2026.

   Other issues included a misprint in promotional materials, a communication issue between HR and a supervisor addressed through training, and six brief technology disruptions with no security breaches or exploitation. All issues were promptly corrected, and BOR continues to show improved understanding of internal controls and their importance to institutional risk management.

xi. Bureau of Information and Technology – Morgan Gruebele

a. Risks: 513 documented risks
b. Completion: 91.1% attestations on time
c. Controls: 264 documented controls
d. Issue: 43 Control Issues
e. Comments: Forney expressed concern about declining attestation completion rates, which dropped from 98.9 percent to 95.2 percent and then to 91.1 percent, as well as the continued presence of repeat control issues. Forney emphasized the importance of leadership engagement and a strong tone at the top to ensure timely completion of attestations and resolution of recurring issues.

   Gruebele responded that reminders, calendar notices, and ongoing communication are used throughout each cycle, and noted that future efforts will focus on identifying non-responders and increasing management follow-up. Gruebele also stated that BIT and BHRA are still early in implementation and will continue working to determine the root causes of repeat issues. Forney stressed the need to improve participation and reduce repeat findings given the cybersecurity and operational risks involved.

xii. Department of Transportation – Sarah Wellner

a. Risks: 719 documented risks
b. Completion: 100% attestations on time
c. Controls: 192 documented controls
d. Issue: 23 Control Issues
e. Comments: Wellner reported six control failures related to new software implementation. Although the controls did not operate as intended, backup controls were in place and no associated risks materialized. Two repeat control failures were also identified; one was determined to be a misunderstanding and is not expected to recur, and the other is tied to the software implementation with corrective actions currently underway.

xiii. **Bureau of Human Resources and Administration – Morgan Gruebele**

a. Risks: 798 documented risks
b. Completion: 90.5% attestations on time
c. Controls: 205 documented controls
d. Issue: 46 Control Issues
e. Comments: Gruebele reported 46 control issues during the reporting period, 18 of which resulted from incomplete attestations. With the agency now having completed its first full year under the internal control framework, efforts will focus on addressing identified gaps, improving attestation completion, and updating risks and controls as part of the continuous improvement process.

xiv. **Governor's Office of Economic Development – Hope Fisel**

a. Risks: 305 documented risks
b. Completion: 100% attestations on time
c. Controls: 55 documented controls
d. Issue: 1 Control Issue
e. Comments: Fisel noted one control failure related to a control that had not yet been implemented at the time of reporting. Implementation is expected to be completed within the next several weeks, at which time the issue should be resolved.

xv. **Office of the Attorney General – Kelsey Roth**

a. Risks: 315 documented risks
b. Completion: 100% attestations on time
c. Controls: 68 documented controls
d. Issue: 3 Control Issues
e. Comments: ATG reported three control issues, two of which are still in implementation, including new training development and configuration of a technology system. The third was due to a failure in an internal document routing system that did not complete a required process. Roth noted there was no impact to services, and the issue has been corrected with the system now functioning as intended.

xvi. **Governor's Office – Jon Kotilnek**

a. Risks: 202 documented risks
b. Completion: 100% attestations on time
c. Controls: 43 documented controls
d. Issue: 0 Control Issues
e. Comments: The Governor's Office reported completion of its internal control implementation in early spring and expressed appreciation to the Internal Control Office for its guidance throughout the process. Staff explained that the risk assessment was organized into four functional areas—General Counsel, Communications, Operations and Support, and Policy—with employees participating in working groups that met regularly with the Internal Control Office to develop documented risks and controls.

   Kotilnek noted that, given the Office's relatively small size, nearly all employees participated in the process, which contributed to strong collaboration and broad engagement. He also shared that the internal control process has become more streamlined with each agency experience, helping identify opportunities to strengthen procedures, reduce redundancies, and improve efficiency while confirming existing strengths in policies and controls.

8. **Framework Project Update**

a. Kerr reported that implementation of the statewide internal control framework is complete for the Governor's Office and nearing completion for the Secretary of State's Office, which will conclude implementation across all executive branch agencies. She also provided an update on the first annual Risk and Control Matrix review cycle, noting

that approximately 94 percent of agency reviews are complete, with the remainder expected to be finalized within the next week.

b. Kerr presented the Fiscal Year 2027 Work Plan, which mirrors the prior year's structure and includes quarterly updates on audit findings, GOAC activities, internal control reports, and implementation updates. She noted that agencies have received updated risk and control documentation to prepare for the next annual review cycle, after which control testing will begin in the next fiscal year. Following discussion, the Board approved the Fiscal Year 2027 Work Plan.

c. Kerr also introduced the Internal Control Testing Methodology, describing it as the next phase of the statewide program. The methodology establishes a standardized, risk-based approach for selecting, testing, and evaluating controls across agencies, with defined roles for the Internal Control Office, agency internal control officers, and control owners. The approach prioritizes higher-risk areas such as financial impact, transaction volume, staffing changes, prior issues, and fraud risk. The methodology will be piloted over the coming months and brought back for further refinement before formal adoption.

9. **Other Discussion Items**
    a. None.
10. **Agenda Items for Next Time:** None
11. **Public comment:** None
12. **Adjourn meeting at 12:06 PM**
    - IT WAS MOVED Beck, seconded by Tidball-Zeltinger