

State Board of Internal Control Minutes

Date: 12/19/25

Time: 10:00 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

- Jim Terwilliger called the meeting to order at 10:00 a.m.
- Allysen Kerr called the roll.

Members present:

- Kellie Beck – DOT
- Heather Forney – BOR (absent, excused)
- Amanda Jost – BIT
- Brenda Tidball-Zeltinger – DSS
- Chris Petersen – GFP (absent, excused)
- Rich Sattgast – State Auditor
- Jim Terwilliger – BFM
 - 1. Quorum is present

3. Approval of Meeting Agenda

- Motion to approve agenda.
 - IT WAS MOVED by Beck, seconded by Sattgast
 - The motion carried with a voice vote

4. Approval of Minutes from Last Meeting

- Motion to approve minutes from June 30, 2025
 - IT WAS MOVED by Sattgast seconded by Jost
 - 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)

1. Yankton Transit, Inc.

- **Presenter:** Jack Dokken
- **Entity:** Department of Transportation
- **Findings:** 2024-001 (Preparation of Financial Statements and footnotes, Schedule of Expenditures of Federal Awards with material journal entries), 2024-002 (Activities Allowed/Unallowed and Cost Principals)
- **Questioned Costs:** None
- **Comments/Action:**
Finding 2024-001 related to the preparation of financial statements and accompanying footnotes, noting that the CFO was involved with material journal entries, which raised concerns about separation of duties. Yankton Transit's corrective action plan was to have their auditors, Kinner and Company, prepare the financial statements and related notes as part of the annual audit. We agreed with this corrective action provided that Yankton Transit also supplied

documentation demonstrating appropriate separation of operational duties. That documentation has since been submitted and reviewed, and we believe these actions will adequately address the finding and help prevent similar audit issues in the future.

Finding 2024-002 related to internal controls over compliance with allowable activities and cost principles and was associated with point-of-sale transactions. The issue arose because staff were purchasing approved items for the transit agency using debit cards, which do not allow for management approval or review prior to payment. To mitigate this risk, the auditors recommended switching to credit cards so that management can review transactions monthly and identify or reject any unallowable costs before payment is finalized. The transit agency implemented this change several months ago, and we reviewed the corrective action and determined it satisfactorily resolved the finding.

2. West River Electric Association, Inc.

- **Presenter:** Jim Poppen
- **Entity:** Department of Public Safety
- **Findings:** 2024-001 (Preparation of Schedule of Expenditures of Federal Awards), 2024-002 (Activities Allowed/Unallowed and Cost Principles), and 2024-003 (Reporting)
- **Questioned Costs:** None
- **Comments/Action:**

Finding 2024-001 noted that the cooperative lacked adequate internal controls over the preparation of its financial statements. Similar to what was previously reported, the corrective action involves having the financial statements prepared by the cooperative's auditing firm, followed by management's review and formal approval. This process is intended to strengthen internal controls and ensure the accuracy and reliability of the financial reporting.

Finding 2024-002 addressed a lack of clear approval procedures for materials taken from stock inventory and used in a mitigation project. While management approved purchased materials, there was no defined process for approving inventory materials charged to specific work orders; this has since been corrected by assigning approval authority to the operations manager before costs are charged to a project.

Finding 2024-003 related to discrepancies between reported expenses and required quarterly grant reports, as the expenses did not reconcile to the reported totals. To resolve this, management implemented the use of their work order analysis within the iView accounting system to generate

expense-to-date figures for grant reporting and retain supporting documentation. After reviewing these corrective actions with the general manager and CFO, we are comfortable that the issues have been adequately addressed and do not anticipate further concerns.

b) **GOAC Update**

- **10/30/2025:** DSS, State Network Outage BHRA & BIT, SOS KNOWink
- **11/13/2025:** Tech Ed, Tourism, Education, DOT, SDHDA, Secretary of State KNOWink contract. 3 draft bills for upcoming session.

6. Internal Control Quarterly Report

a) **Statewide:**

- The internal control framework focuses on ongoing monitoring, testing, and reporting as part of first-line defense activities.
- The framework is currently implemented at 27 agencies, with 2 additional agencies in the onboarding process.
- Participating agencies have documented objectives, risks, and controls. These are reviewed periodically to support accountability, continuous improvement, and responsiveness to emerging risks.
- Agencies are required to complete semi-annual attestations on the effectiveness of controls addressing high and critical risks. This ensures controls are documented, implemented, and operating as intended.
- The current report summarizes results from these semi-annual self-assessments.
- A total of 2,465 control attestation questionnaires were distributed to 539 control owners statewide. The process achieved a 99.5% response rate, demonstrating strong coordination and engagement. This participation supports continuous monitoring of the state's risk environment.
- Appreciation was expressed to agency internal control officers for their leadership and diligence in completing attestations on time.
 - **Total risks identified to date:** 13,177
 - **High and critical risks identified:** 2,560 (~20% of total risks)
 - **Controls documented and implemented:** 3,461
 - **Control issues identified this period:** 165
 - **Control Issue Process**
 - Each issue is reviewed with the agency's internal control officer to determine:
 - **One-time execution failures** – Closed and monitored for recurrence.
 - **Ongoing or implementation-phase issues** – Assigned a remediation plan, owner, and follow-up date.
 - Each agency's internal control officer will present their individual reports and remediation plans.

A few words from the Chair who emphasized the board's ongoing responsibility to maintain and continuously evaluate internal controls, noting that they should not be treated as a one-time exercise. Over the past several years, there has been a renewed focus on strengthening internal controls, which requires significant effort from staff and agency personnel who often manage multiple responsibilities. Appreciation was expressed to Ally, Karlee, and agency staff for their hard work and dedication. The speaker highlighted that these efforts have strengthened operations statewide and stressed the importance of maintaining momentum rather than allowing progress to stagnate.

b) **Agency**

- i. **Bureau of Finance and Management – Karlee Rinehart for Morgan Gruebele**
 - a. Risks: 187 documented risks
 - b. Completion: 100% attestations on time
 - c. Controls: 61 documented controls
 - d. Issue: 0 Control Issues
 - e. Comments: none
- ii. **Department of Revenue – Morgan Deis**
 - a. Risks: 268 documented risks
 - b. Completion: 100% attestations on time
 - c. Controls: 170 documented controls
 - d. Issue: 1 Control Issues
 - e. Comments: One internal control failure occurred within the Administration Division due to a control that was properly designed but not followed. An employee uploaded federal tax data into the legacy tax system, Cedar, which does not meet IRS security standards, resulting in a breach of IRS protocol. The data was promptly removed, the employee was coached on proper data handling requirements, and corrective actions were implemented, including updating the IRS data request form to require employee acknowledgment of the policy with each request.

Chair: Have you added controls?

Deis: Yes, through ongoing review, several internal controls were identified as needing updates, while others were removed and replaced with more mature and effective controls. In some areas, manual controls were successfully replaced with system-based controls, resulting in improvements across the divisions reviewed to date.
- 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
 - e. Comments: none
- iv. **Department of Tourism – Hallie Willey**
 - a. Risks: 102 documented risks
 - b. Completion: 100% attestations on time
 - c. Controls: 10 documented controls

- d. Issue: 0 Control Issues
- e. Comments: none

v. **Department of Corrections – Emily Trujillo**

- a. Risks: 513 documented risks
- b. Completion: 100% attestations on time
- c. Controls: 110 documented controls
- d. Issue: 35 Control Issues
- e. Comments: DOC significantly expanded the number of identified risks, representing a 42% increase, and this cycle marked the first attestation process for most control owners. Additional training and support will be provided to improve consistency and accuracy in future attestations. Policies and procedures are in place for the operational and compliance controls identified. During this period, DOC Finance reported two control issues, which were addressed through updates to internal financial policies and additional training, while DOC Security reported four control issues that were remediated at the time with appropriate staff. Appreciation was expressed to all DOC staff for their participation and commitment throughout this extensive process.

vi. **School and Public Lands - Justin Nagel**

- a. Risks: 78 documented risks
- b. Completion: 100% attestations on time
- c. Controls: 4 documented controls
- d. Issue: 0 Control Issues
- e. Comments: During the month of October, Renee Knapp and Justin Nagel met several times with Missy Lock, the Compliance Auditor hired by the Office of the State Auditor authorized by the of passing of Senate Bill 60 during the last legislative session. Because we are a small office, SPL was chosen to be the first agency in State Government to complete the Compliance Audit.

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

- a. Risks: 63 documented risks
- b. Completion: 100% attestations on time
- c. Controls: 16 documented controls
- d. Issue: 0 Control Issues
- e. Comments: none

viii. **Office of the State Treasurer – Melissa Hull**

- a. Risks: 67 documented risks
- b. Completion: 100% attestations on time
- c. Controls: 44 documented controls
- d. Issue: 0 Control Issues
- e. Comments: none

ix. **Department of Human Services – Greg Evans & Michael Helgerson**

- a. Risks: 424 documented risks
- b. Completion: 100% attestations on time
- c. Controls: 84 documented controls
- d. Issue: 4 Control Issues
- e. Comments: Employees continue to work diligently to maintain high standards of internal controls and operational excellence. The organization is currently collaborating with Baker Tilly and the Office

of Budget and Finance to review processes and controls, with plans to extend the review to additional divisions as contract funds allow. This review is expected to increase the total number of controls. During this period, four control failures were reported, compared to five in the previous period, indicating ongoing improvement. SCDC had one failure related to establishing protocols, training, and checklists for compliance with state and federal law, which will be reevaluated in the next cycle. DRS had one failure for not adhering to vendor payment timelines, and they plan to review the process to ensure timelines are practical. DD had two failures: one for not conducting competency-based training assessments and another repeat failure for not completing annual policy reviews, for which a tracking system is being developed. Overall, corrective actions are underway to address these issues.

Tidball-Zeltinger: Thank you Mr. Evans for your service to the state. It has been a privilege to get to know you.

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: 19 Control Issues
- e. Comments: BOR employees continue to uphold high standards for internal controls. During the current review period, 19 control failures were reported; however, after review, three were determined to be errors or technical duplicates, leaving 16 actual self-reported failures. Of these, 12 were high risk and four were critical. Four failures involved IT controls still in the process of implementation due to factors such as construction, service mitigation, and policy finalization. Six failures were timing and frequency issues being fine-tuned through departmental collaboration and vendor communication. Three failures were related to documentation accessibility, all corrected promptly. Two failures stemmed from employee turnover or inaccessibility of control owners, with safeguards being added to prevent recurrence. One failure resulted from human error and was addressed through additional training. BOR noted increasing awareness of internal controls across the organization and views attestation periods as learning opportunities to strengthen controls, with ongoing collaboration planned with Ally and Karlee to reassess and mitigate risks.

xi. Bureau of Information and Technology – Karlee Rinehart for Morgan Gruebele

- a. Risks: 529 documented risks
- b. Completion: 100% attestations on time
- c. Controls: 277 documented controls
- d. Issue: 36 Control Issues
- e. Comments: Issues due to State Government network outage in August.

xii. Department of Transportation – Sarah Wellner

- a. Risks: 718 documented risks
- b. Completion: 100% attestations on time
- c. Controls: 88 documented controls

- d. Issue: 10 Control Issues
- e. Comments: The internal control framework implementation provided the department an opportunity to centralize documentation, review current processes, and identify areas for improvement. Appreciation was expressed to Ally, Karlee, Baker Tilly staff, and DOT personnel for their significant time and dedication in completing the implementation, recognizing it as a major effort that required substantial collaboration and commitment. During the review period, 10 control failures were reported: eight operational, one technology, and one related to public perception. Two of these were determined to be misunderstandings of what constitutes a control failure—for example, failures identified during materials testing did not indicate a control failure when proper procedures were followed. These instances were clarified to ensure accurate reporting in the future.

xiii. Bureau of Human Resources and Administration – Karlee Rinehart for Morgan Gruebele

- a. Risks: 798 documented risks
- b. Completion: 100% attestations on time
- c. Controls: 205 documented controls
- d. Issue: 44 Control Issues
- e. Comments: none

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: 2 Control Issues
- e. Comments: Two control issues were documented during this reporting period, both of which have been addressed with remediation plans in place. One issue involved a lack of segregation of duties due to staffing limitations; a new hire started on Monday, and full controls are expected to be implemented within six months. The second issue was a data entry error in an agency-wide database, which had no major impact. Measures are being taken to strengthen existing controls and implement additional preventive controls to avoid future errors.

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: 4 Control Issues
- e. Comments: Four control failures were reported, primarily due to timing. Two controls are in the final stages of implementation. One failure relates to training and certifications, as coursework and exams are offered only at certain times of the year, and the other involves updating educational materials, which will be an ongoing process. Appreciation was expressed to Ally and her team for their support in coordinating across seven sections with diverse functions, making the process more manageable. The review provided an opportunity to examine not only financial controls but also public perception and operational risks.

Chair: Did it make you think about things differently?
Roth: Yes. Lots of staff realizing that it is not just financial.

7. Framework Project Update

- a. This past quarter we were able to finalize internal control implementations for UJS, DOT, BHRA, GOED, and ATG. In addition, implementation efforts have kicked off with the Governor's Office and will resume with the Secretary of State's Office after the new year. Once those last two are done, we will have completed this process at each state agency!
- b. I have also been working closely with multiple agency divisions to complete the annual RCM review process, which is currently underway across several agencies.

8. Other Discussion Items

- a. Compliance Guidance with SB-74 Open Meeting Law Annual Review
- b. Chair: Attests to SDCL 1-25-13 for the SBIC

9. Agenda Items for Next Time: none

10. Public comment: none

11. Adjourn meeting at 11:25 AM

- IT WAS MOVED Tidball-Zeltinger, seconded by Sattgast