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INTERNAL CONTROL TESTING METHODOLOGY

PREPARED FOR THE STATE BOARD OF
INTERNAL CONTROL



PREPARED BY

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PURPOSE, OBJECTIVES, & SCOPE



The purpose of this document is to establish a standardized methodology for the selection, testing, documentation, evaluation, and reporting of internal controls within the State of South Dakota's Internal Control Program. This methodology provides a consistent framework for assessing whether internal controls are appropriately designed and operating as intended.



OBJECTIVES

The objectives of the Internal Control Testing Methodology are to:

- Assess the design and operating effectiveness of internal controls
- Promote consistency, quality, and transparency in internal control testing activities
- Support management's governance, risk management, and internal control responsibilities
- Provide management and oversight stakeholders with reliable insight into the effectiveness of key controls
- Establish consistent standards for the documentation, evaluation, and reporting of testing results
- Identify control deficiencies and support timely corrective action and remediation



SCOPE

This methodology establishes minimum standards and expectations for all internal control testing activities conducted under the State of South Dakota's Internal Control Program. The scope includes controls identified as key, high-risk, critical, or otherwise subject to periodic testing based on the State's risk assessment and control evaluation processes.



This methodology supports accountable stewardship and continuous improvement of internal controls across the State of South Dakota.



01.



STATEWIDE INTERNAL CONTROL OFFICE

Leads statewide internal control testing by establishing standards, overseeing agency activity, and reporting results.

KEY DUTIES

- ✓ **Establish testing methodology**
Develop standards, sampling approaches, and evaluation techniques.
- ✓ **Conduct, coordinate, and oversee testing**
Guide agencies, obtain documentation, and provide methodology guidance.
- ✓ **Evaluate and report results**
Assess control by criticality, track findings, and report trends and remediation.

SUPPORTING TASKS

- Plan and conduct internal control testing in accordance with approved methodology
- Maintain independence, objectivity, and a testing and reporting
- Provide training and oversight guidance to agencies
- Document, track, and communicate significant control issues

02.



AGENCY INTERNAL CONTROL OFFICERS

Serve as the primary liaison between the agency and the Statewide Internal Control Office on testing matters.

KEY DUTIES

- ✓ **Coordinate and conduct testing**
Plan and perform internal control testing in accordance with standards.
- ✓ **Facilitate communication**
Collaborate with control owners and testing specialists; raise or issues.
- ✓ **Monitor and follow up**
Track remediation plans and ensure corrective actions are completed.

SUPPORTING TASKS

- Assist control owners in understanding expectations and standards
- Monitor internal control status and related risks
- Communicate changes, risks, or issues that may impact testing outcomes

03.



CONTROL OWNERS

Design, implement, and maintain effective internal controls within their area of responsibility.

KEY DUTIES

- ✓ **Design and implement controls**
Ensure controls are appropriate and operating as intended.
- ✓ **Maintain and monitor controls**
Identify weaknesses and implement improvements.
- ✓ **Provide evidence and documentation**
Support testing with evidence and respond to testing inquiries.

SUPPORTING TASKS

- Ensure controls operate as intended
- Oversee and monitor remediation plans for identified deficiencies
- Attest to the status and effectiveness of controls as required



04.



CONTROL PERFORMERS

Perform assigned control activities accurately and in accordance with established procedures.

KEY DUTIES

- ✓ **Execute control activities**
Perform assigned control procedures and document test results.
- ✓ **Document and retain information**
Maintain accurate and complete documentation.
- ✓ **Escalate issues**
Report exceptions or deviations to the appropriate party as needed.

SUPPORTING TASKS

- Ensure accurate and completeness of documentation
- Notify relevant parties of control issues or exceptions
- Follow established procedures for testing execution

05.



MANAGEMENT / OVERSIGHT / BOARD

Provides oversight and accountability for internal controls and timely remediation of control issues.

KEY DUTIES

- ✓ **Review and monitor results**
Understand test results, confirm significance, and monitor remediation.
- ✓ **Provide oversight**
Hold accountable and ensure management addresses risks and control issues.
- ✓ **Communicate and reinforce culture**
Champion the importance of internal controls and continuous improvement.

SUPPORTING TASKS

- Review internal control testing results and trends
- Provide strategic direction and resources to strengthen internal controls
- Monitor remediation efforts and overall effectiveness
- Communicate control expectations to management



All roles are expected to collaborate and communicate to promote a strong culture of internal control.

CONTROL SELECTION CRITERIA



These criteria are used to evaluate and prioritize controls for testing based on risk, impact, and relevance to ensure an effective and efficient testing approach.

01



QUANTITIES

- Higher financial exposure (revenue, expenditures, assets, or liabilities)
- Higher volume or frequency of transactions or activity
- Significant impact on financial reporting, compliance, operations, or technology
- Nature of the control (manual, automated, or hybrid environment)

05



CONTROL & SYSTEM CHARACTERISTICS

- Control type (preventive, detective, or compensating)
- Execution type (manual, automated, or IT-dependent)
- Complexity of the control, including number of process steps and handoffs
- Reliance on system-generated reports or other system-produced information, including data integrity considerations
- Stability of underlying systems, applications, and interfaces supporting the control

02



PEOPLE

- Involvement of key personnel or critical roles in control execution
- Experience level and institutional knowledge of control performers or owners
- Tenure in role or organization
- Areas with higher turnover or staffing instability

06



PRIOR TESTING AND COVERAGE

- Results and findings from prior internal or external testing
- Time elapsed since last testing
- Frequency and depth of prior coverage
- Status and effectiveness of remediation from prior issues

03



HISTORICAL BACKGROUND

- History of errors, deficiencies, or fraud related to the control process
- Prior internal or external audit findings or control failures
- Recent or significant changes in processes, systems, regulations, or legislation
- Frequency or recurrence of control issues

07



OTHER RISK-BASED CONSIDERATIONS

- Emerging risks identified by management, internal control personnel, or oversight bodies
- Unique or non-routine-specific risks not captured in other criteria
- Significant operational, environmental, or organizational factors affecting control risk
- Any additional risk considerations with documented justification and approval

04



REGULATORY / COMPLIANCE REQUIREMENTS

- Statutory, regulatory, or policy mandates
- Federal, grant, or other funding requirements
- Board or oversight body directives
- Controls subject to mandatory or prescribed periodic testing requirements





TESTING APPROACH & PARAMETERS

Control testing is performed using one or more of the following techniques, which may include data analytics or full-population testing where applicable:

- Inquiry
- Observation
- Inspection
- Reperformance
- Data Analysis



The testing approach is tailored based on control characteristics, including frequency, complexity, and the degree of judgment required. Testing parameters define the timing, period under review, and procedures necessary to evaluate control effectiveness.



Sampling is used when controls operate multiple times during the testing period. Sampling approaches may be statistical or non-statistical, based on the control and risk profile.



Sample sizes are determined based on control frequency, population size, and risk rating. Sample selection methods are documented, and the completeness and accuracy of the population are validated prior to selection. Where exceptions are identified, additional testing may be performed based on the nature and extent of the issue.



Data analysis is performed to evaluate test results, identify trends, and determine whether controls are operating effectively. Techniques may include descriptive statistics, trend analysis, and root cause analysis.



A well-defined testing approach and appropriate parameters help ensure reliable results and support strong internal control and accountability.

TESTING PROCEDURES

A structured approach to ensure effective, consistent, and reliable internal control testing.



DEFINE SCOPE AND OBJECTIVES

Identify the control to be tested, the testing objective, and the period under review, including the relevant population.

1

PLAN AND PERFORM TESTING PROCEDURES

Select and apply appropriate procedures, which may include inquiry, observation, inspection, reperformance, or data analysis.



2



EVALUATE EVIDENCE AND RESULTS

Assess whether sufficient, appropriate evidence supports that the control is operating effectively.

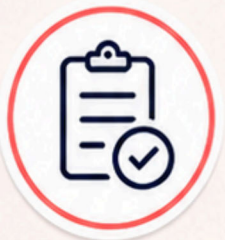
3

DOCUMENT OUTCOMES

Record procedures performed, evidence reviewed, results, and any exceptions or potential deficiencies identified.



4



REVIEW AND FINALIZE TESTING

Review for accuracy, consistency, and adherence to the internal control testing methodology.

5



Following these procedures helps ensure reliable testing results and supports strong internal control and accountability.



CONTROL TESTING TEMPLATE

AGENCY: _____
DIVISION: _____
FISCAL YEAR: _____
CONTROL ID: _____

Prepared By: _____
Date: _____
Reviewed By: _____
Date: _____

CONTROL INFORMATION

Control Activity:

Control Performance Detail:

Control Frequency:

Testing Period:

TESTING PARAMETERS

Scope:

Population Size & Description:

Sample:

Sampling Method:

TESTING EXECUTION

Support/Sources:

Testing Procedure:

Pass/Fail Criteria:

Attributes Tested:

| | |
|---|----------------------|
| 1 | <input type="text"/> |
| 2 | <input type="text"/> |
| 3 | <input type="text"/> |

TEST WORK

| Sample # | Document Reference | Date | | Attribute 1 | Attribute 2 |
|----------|--------------------|------|--|-------------|-------------|
| 1 | | | | ✓ | ✓ |
| 2 | | | | ✓ | ✓ |
| 3 | | | | ✓ | ✓ |
| 4 | | | | ✓ | ✓ |
| 5 | | | | ✓ | ✓ |
| 6 | | | | ✓ | ✓ |
| 7 | | | | ✓ | ✓ |

Legend:

✓ Attribute Satisfied

⊗ Attribute Not Satisfied

N/A Not Applicable

Notes:

Conclusion:

Pass/Fail:

Management Response (Optional):