



June 1, 2020

**Internal Audit –Financial Controls and Reporting,
and Human Resources/Payroll**

South Dakota Science and Technology Authority

Prepared by:

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June 1, 2020

Michelle Baumann
Contracts Specialist
South Dakota Science and Technology Authority
630 E Summit St.
Lead, SD 57754

Dear Mrs. Baumann:

This report provides you, South Dakota Science and Technology Authority (SDSTA) leadership, the Audit Committee, and members of the Board with the results of the recent Internal Audit of Financial Controls and Reporting, and Human Resources/Payroll and a means to prioritize risk mitigation and/or remediation strategies.

The Internal Audit was performed in accordance with the statement on standards for consulting services established by the AICPA. CliftonLarsonAllen ("CLA") was not engaged by SDSTA, to conduct a financial audit, for which the objective would be the expression of an opinion on the financial statements. Had we been hired to perform an audit of financial information in accordance with U.S. generally accepted auditing standards, other issues may have come to our attention that would have been reported to you. Therefore, we express no opinion on the effectiveness of SDSTA, controls over all or any part of its financial statements.

In addition, the procedures performed by CLA are not a substitution for management's responsibility to maintain a system of controls to mitigate risk. The Internal Audit of Financial Controls and Reporting and Human Resources/Payroll processes was designed to provide SDSTA, with insight to inherent and specific risks and deficiencies involved with these activities. Our procedures alone cannot identify errors and irregularities related to the scope of this project.

We appreciate the opportunity to assist SDSTA, in performing this assessment. Management and staff involved in the process were a pleasure to work with and very open to sharing their opinions and knowledge. This cooperation was invaluable to the outcome of this project. If you have any questions, please feel free to contact us for assistance.

Sincerely,

Brian G. Pye
Principal
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EXECUTIVE SUMMARY

CliftonLarsonAllen LLP (“CliftonLarsonAllen” or “CLA”) performed an Internal Audit of Financial Controls and Reporting and Human Resources/Payroll processes, for SDSTA, to assess whether internal controls are suitably designed and operating effectively to achieve control objectives. This included a review of the following areas:

Financial Controls and Reporting

- Financial statement reconciliations
- Bank reconciliations
- Segregation of duties
- Journal entries
- Cash Controls

Human Resources/Payroll

- Payroll
- Benefits
- Hiring
- Terminations
- Employee Expenses
- Segregation of duties
- Changes to employee master files

To achieve the project objective, CLA conducted the review through inquiry procedures and reviewing documentation provided by management.

OBJECTIVES AND SCOPE

Objective

The objective of the internal audit is to assess the design and effectiveness of controls over Financial Controls and Reporting, and Human Resources/Payroll.

Procedures

As part of the internal audit, we performed the following:

- Assessed policies and procedures relating to financial reporting and human resources/payroll
- Assessed month-end checklists to verify items are tracked through completion
- Reviewed general ledger account reconciliations for the month of February 2020 to verify reconciliations are documented, reviewed, appropriately approved, and adequately supported
- Reviewed detailed reports of reconciliation of changes and expenses provided to executive management
- Reviewed journal entries completed between September 2019 through February 2020
 - Discussed new procedures implemented in April 2020 to address segregation of duties within financial reporting processes
- Reviewed reconciliations of both biweekly, weekly payrolls and all time-cards/paystubs for pay date of 2/28/20 to verify reconciliations are documented, reviewed, appropriately approved, and adequately supported
- Assessed payroll raises processed between September 9, 2019 and February 28, 2020
- Compared listing of current employees to terminated employees to verify accuracy of employees currently employed.
- Reviewed a sample of 20 current employees (10 exempt and 10 non-exempt) to verify the following information was on file:
 - Completed employment applications
 - Completed W-4 forms
 - Completed health benefits acceptance
 - Completed payroll elections
 - Completed background investigations

Conclusion

We appreciate the opportunity to assist SDSTA, in the internal audit of Financial Controls and Reporting, and Human Resources/Payroll activities. Based on the review of the content and outcome of the procedures performed, the process has been assigned a classification of satisfactory, needs improvement or unsatisfactory. The classifications are based solely upon the specific processes, scope and objectives of the internal control assessment noted in the executive summary and are meant to facilitate comparison between the areas assessed.

Based on the interview process and controls tested, we have determined controls are **Satisfactory**. There were no reportable findings noted during our review.

The following is a summary of each classification:

| Rating | Definition |
|-------------------|--|
| Satisfactory | Denotes an acceptable structure of internal control and reasonable compliance with pertinent policies, procedures and regulatory requirements. Issues indicate modest weaknesses that require management's attention. |
| Needs Improvement | Denotes weaknesses in the structure of internal control and/or compliance with pertinent policies, procedures and regulatory requirements. The issues require management's prompt resolution to prevent further deterioration and possible losses. |
| Unsatisfactory | Denotes substantial weakness in the structure of internal control and/or compliance with related policies, procedures and regulatory requirements. Management's immediate attention to these issues is required to prevent loss to the bank. |