March 3, 2020

Internal Audit –Governance, Accounts Receivable, Accounts Payable and Electronic Funds Transfer

South Dakota Science and Technology Authority

Prepared by:

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March 3, 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 Governance, Accounts Receivable, Accounts Payable, and Electronic Funds Transfer processes 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 Governance, Accounts Receivable, Accounts Payable, and Electronic Funds Transfer 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 Governance, Accounts Receivable, Accounts Payable, and Electronic Funds Transfer 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:

Governance
- Policy and Procedure review of accounting operations

Accounts Receivable
- Account reconciliations
- Segregation of duties
- New customer setup
- Collection/receipt process and remittance
- GL activities/maintenance
- Dual control of receipts

Accounts Payable
- Account reconciliation
- Vendor setup and conflict of interest
- Segregation of duties
- Disbursement/payment controls
- GL activities/maintenance
- Safeguarding of assets

Electronic Funds Transfer
- Wire transfers
- ACH, authorization limits
- Application access
- Authorized personnel
- Segregation of duties

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 Governance, Accounts Receivable, Accounts Payable, and Electronic Funds Transfer processes.

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

- Reviewed policies and procedures of accounting operations and overall corporate governance

- A random sample of ACH (24) and wire transfer (5) transactions which occurred between November 1, 2019 and January 31, 2020 were selected for testing"
    - Agreed the information on the outgoing wire request form to the automated funds transfer record of transaction
    - Verified approval by an authorized signer
    - Verified approved amounts are within the authorized signer's limit
    - Reviewed the balancing procedures at the end of the day
    - Reviewed procedures to ensure appropriate segregation of duties between receiving requests, processing a transaction, recording the transaction, and month-end reconciling

- A random sample of 15 invoices paid as of January 31, 2020 were selected for testing
    - Verified invoices were properly supported
    - Verified invoices received were from approved vendors
    - Verified invoices were appropriately approved for payment
    - Reviewed procedures to ensure appropriate segregation of duties between receiving invoices, processing a payment, recording the payment, and month-end reconciling

- Reviewed Accounts Receivable Aging Report as of January 31, 2020 to ensure accounts more than 60 days old were adequately tracked.
    - Total accounts receivable were $2,475,510 and less than 1% is over 60 days at $30,693.

- Obtained and reviewed accounts receivable general ledger, cash receipts journal, and bank statement as of January 31, 2020 to determine cash receipts were properly recorded and reconciled.

Conclusion

We appreciate the opportunity to assist SDSTA, in the internal audit of Governance, Accounts Receivable, Accounts Payable, and Electronic Funds Transfer 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 are only two minor control deficiencies noted which are explained further in the Detailed Observation Listing section of this report.

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.

Detailed Observation Listing

#	Deficiency Noted	CliftonLarsonAllen Recommendation	Risk	Management's Response
1	When the accountant is out of the office, the CFO is responsible for processing accounts payable. As the CFO also maintains all blank check stock, this creates a segregation of duties issue.	An additional level of management should be added to the review of payments processed to ensure that in the event the CFO has to perform all functions there is still an adequate level of review being performed.	Medium	Recently hired accountant will be the backup for both payroll and accounts payable. Therefore, the CFO will not be processing A.P.
2	Currently the CFO has a security FOB that is needed to process wire transfers. This creates a segregation of duties issue as the CFO also monitors and reviews all wire transfer activity.	This issue is mainly due to an open position. Once the position is filled, the CFO should pass the security FOB to the new individual. The CFO should only be responsible for monitoring and reviewing the wire transfer activity.	Medium	Security Fob will be transferred to newly hired accountant.