State Board of Internal Control

ANNUAL REPORT TO GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

AUGUST 26TH, 2020

Highlights

- 6 Subrecipient audits reviewed
- Onboarded new Statewide Internal Control Officer
- Implemented GRC technology application
- Planned (and currently executing) agency implementations

Subrecipient Audit Reviews

- Reviewed six audit reports received from Legislative Audit as required by SDCL 1-56-9

- Lutheran Social Services of South Dakota, Inc.
  - https://boardsandcommissions.sd.gov/bcuploads/Managment%20Letter%20and%20Audit%20Report%20Lutheran%20Social%20Services%20of%20South%20Dakota%20Inc.%202018.pdf
  - https://boardsandcommissions.sd.gov/bcuploads/DSS%20-%20LSS%20Combined.pdf
- Powder House Pass Community Improvement District
  - https://boardsandcommissions.sd.gov/bcuploads/Powder%20House%20Pass%20Community%20Improvement%20District%20Management%20Decision%20and%20Audit%20Report.pdf
- South Dakota Network Against Family Violence and Sexual Assault, Inc.
  - https://boardsandcommissions.sd.gov/bcuploads/SD%20Network%20Against%20Family%20Violence%20and%20Sexual%20Assault%20Inc.%202018.pdf
- Prairie Hills Transit
  - https://boardsandcommissions.sd.gov/bcuploads/DOT-West%20River%20Transit%20Authority.pdf
- Children's Home Society of South Dakota
  - https://boardsandcommissions.sd.gov/bcuploads/DPS%20-%20Children's%20Home%20Society.pdf

GRC Technology Application

- ServiceNow GRC (Governance, Risk and Compliance)
- Benefits:
  - Central repository for statewide risks and controls
  - Built in security
  - Automated reporting and control testing
  - Ease of reporting for agency IC officers

State of South Dakota

Self-assessment and internal control report

Date: June 30, 2020

FY 2020 **QTR** 4

Agencies under review:
Bureau of Finance & Management
Department of Revenue

Executive Summary

The State of South Dakota Internal Control Framework has been successfully rolled out to two agencies: the Bureau Finance & Management and the Department of Revenue. These agencies have documented their objectives, risks and controls which are subject to periodic revision. The Framework provides for the need to monitor, test and report control deficiencies as part of the first line of defense activities. This report details the results and findings as part of the self-assessments performed by the control owners in each division. The following activities were performed as part of the self-assessment:

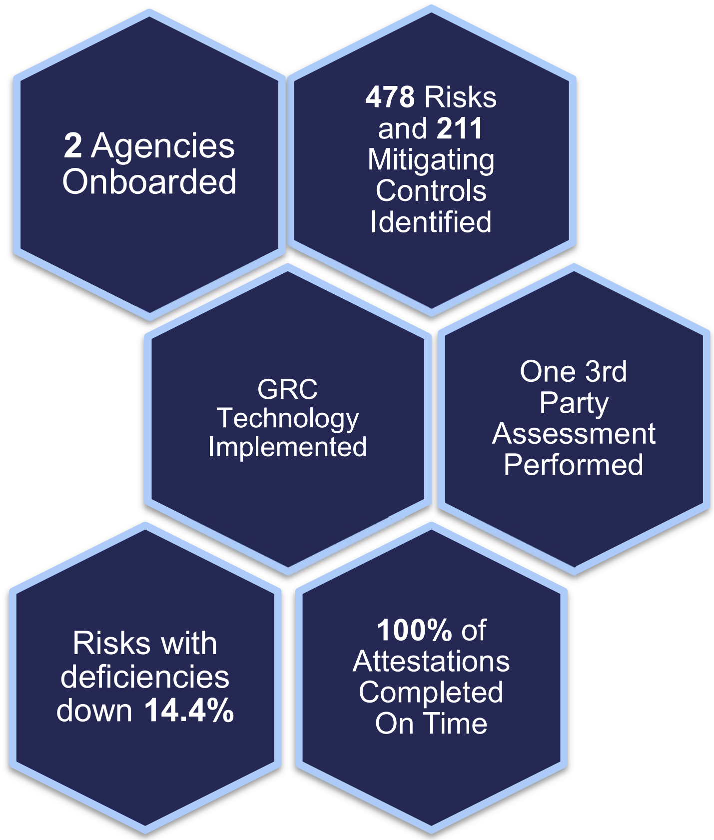
- Control owners and Agency Internal Control Officers completed a review of their objectives, risks and controls to ensure their matrix was up to date. This includes changing risks, risk ratings, objectives and prioritizations where necessary;
- Control owners completed an attestation for their respective controls validating control effectiveness;
- Control owners are documenting remediation plans for control deficiencies where applicable;
- Control owners received training on attestation completion;
- The State Internal Control Officer reviewed the key information reported by all relevant parties and provided guidance where necessary.

Overall, we had a 100% response rate on the control attestations. One control deficiency was identified, and the respective agency has remediated this issue.

State of South Dakota Internal Control Program Snapshot

Key accomplishments to date

Metric	Current period	Prior period
Number of overall findings	1	0
Number of remediation plans in progress	1	31
% High/Critical risks	30.1%	36.9%
% High/Critical risks with deficiencies	1.6%	16.0%
Number new risks identified	0	12
% Certifications completed on time	100%	100%
Number new controls identified	0	13



Statewide Self-Assessment Results

Agencies represented in report:
Bureau of Finance and Management

Department of Revenue

Statewide

Metric	Details	Current review period		Prior review period	
		Number	Percent	Number	Percent
Risk by Type	Public Perception	27	5.6%	0	0%
	Technology	37	7.7%	0	0%
	Operational	172	36.0%	0	0%
	Compliance	75	15.7%	0	0%
	Financial	77	16.1%	0	0%
	Multiple	90	18.8%	0	0%
		478	**100%**	**0**	**0%**
Risk by Priority	Low	123	25.7%	0	0%
	Medium	211	44.1%	0	0%
	High	81	16.9%	0	0%
	Critical	63	13.2%	0	0%
		478	**100%**	**0**	**0%**
Control Owner Self-Assessments	Completed On-time	100%		0%	
Critical / High Priority Risks with an Identified Control Issue	High	0	0%	0	0%
	Critical	1	1.6%	0	0%
		1	**0.7%**	**0**	**0%**
Past Due Remediation Actions		0		0	
Risks with Priority Changes		0		0	
Number of Control Issues by Risk Type		Number	Percent	Number	Percent
	Public Perception	0	0.0%	0	0%
	Technology	1	100.0%	0	0%
	Operational	0	0.0%	0	0%
	Compliance	0	0.0%	0	0%
	Financial	0	0.0%	0	0%
Preventive vs. Detective Controls		43.6% vs. 61.1%		0% vs. 0%	
Controls by Frequency	Manually	81	38.4%	0	0%
	Daily	31	14.7%	0	0%
	Weekly	6	2.8%	0	0%
	Bi-Weekly	5	2.4%	0	0%
	Monthly	41	19.4%	0	0%
	Bi-Monthly	3	1.4%	0	0%
	Quarterly	8	3.8%	0	0%
	Semi-Annually	2	0.9%	0	0%
	Annually	34	16.1%	0	0%
		211	**100%**	**0**	**0%**

Independent Audit Outcomes

Overview

The Department of Legislative Audit (DLA) issued the State's Single Audit for FY19 on March 31st. In the Single Audit, DLA audits compliance for each major federal award and reports on internal control over compliance as required by the uniform guidance.

Additionally, DLA audits the State's Comprehensive Annual Financial Report (CAFR) and considers the internal controls and tests compliance that could affect financial statement amounts as a part of that audit.

This report will focus on the findings related to agencies that have implemented the Statewide Internal Control Framework.

Results

The Department of Revenue had one financial statement audit finding. This finding will be captured and addressed in the Department's Risk and Control Matrix.

-2019-001 Inadequate Segregation of Duties over Access Rights

Further information on this finding can be found in Appendix C – Independent Auditor Reports.

Internal Control Program Status update

Complete

- **Internal Control Framework drafted and adopted**
- **Rolled out to two agencies (DOR and BFM)**
- **GRC Technology implemented**
- **Finalized extension of PwC Contract**

In progress

- **Planning for future implementations**

Not started

- **One agency awaiting implementation of framework (Department of Agriculture)**

Appendices

Appendix A – Status of Prior Year Findings

Appendix B - Agency Metrics Details

Appendix C – Independent Auditor Reports

Appendix A – Status of Previous Findings

#	Observation	Status	Comment
DOR 2018-001	**Inadequate Controls over Business Tax Revenue Reconciliations**	Closed	
DOR 2018-002	**Inadequate Controls Over Motor Fuel Tax Revenue Reconciliations**	Closed	
DOR 2018-002	**Inadequate Controls over Motor Vehicle Titles & Registrations (T&R) Revenue Reconciliations**	Closed	

Appendix B – Agency Metrics Details

See the following for detailed metric and review dates for all the agencies onboarded to the State of South Dakota Internal Control Framework

Finance & Management

Agency Internal Control Officer
Steven Kohler, Director of Executive Management Finance Office and BFM Internal Control Officer

Last review period: December 18, 2019

Date of review: June 30, 2020

Metric	Details	Current review period		Prior review period	
Risk by Type		Number	Percent	Number	Percent
	Public Perception	0	0.0%	0	0%
	Technology	13	7.4%	0	0%
	Operational	114	65.1%	0	0%
	Compliance	24	13.7%	0	0%
	Financial	24	13.7%	0	0%
	Multiple	0	0.0%	0	0%
		175	**100%**	**0**	**0%**
Risk by Priority	Low	51	29.1%	0	0%
	Medium	99	56.6%	0	0%
	High	24	13.7%	0	0%
	Critical	1	0.6%	0	0%
		175	**100%**	**0**	**0%**
Control Owner Self-Assessments	Completed On-time	100%		0%	
Critical / High Priority Risks with an Identified Control Issue	High	0	0%	0	0%
	Critical	0	0%	0	0%
		0	**0%**	**0**	**0%**
Past Due Remediation Actions		0		0	
Risks with Priority Changes		0		0	
Number of Control Issues by Risk Type		Number	Percent	Number	Percent
	Public Perception	0	0%	0	0%
	Technology	0	0%	0	0%
	Operational	0	0%	0	0%
	Compliance	0	0%	0	0%
	Financial	0	0%	0	0%
Control Issues by Division	Budget Analysis	0	0%	0	0%
	EMFO	0	0%	0	0%
	Financial Reporting	0	0%	0	0%
	Financial Systems and	0	0%	0	0%
	Operations	0	0%	0	0%
	State Economist				
Controls with Independent Audit Issues		**0**		**0**	
Controls with Repeat Issues		**0**		**0**	
Preventive vs. Detective Controls		69.4% vs. 30.6%		0% vs. 0%	
Controls by Frequency	Manually	22	44.9%	0	0%
	Daily	8	16.3%	0	0%
	Weekly	1	2.0%	0	0%
	Bi-Weekly	0	0.0%	0	0%
	Monthly	4	8.2%	0	0%
	Bi-Monthly	0	0.0%	0	0%
	Quarterly	2	4.1%	0	0%
	Semi-Annually	1	2.0%	0	0%
	Annually	11	22.4%	0	0%
		49	**100%**	**0**	**0%**

Revenue

Agency Internal Control Officer
Toni Richardson, Director of Administration

Last review period:
December 18, 2019

Date of review:
June 30, 2020

Metric	Details	Current review period		Prior review period	
Risk by Type		**Number**	**Percent**	**Number**	**Percent**
	Public Perception Technology Operational Compliance Financial Multiple	27 24 58 51 53 90	8.9% 7.9% 19.1% 16.8% 17.5% 29.7%	0 0 0 0 0 0	0% 0% 0% 0% 0% 0%
		303	**100%**	**0**	**0%**
Risk by Priority	Low Medium High Critical	72 112 57 62	23.8% 37.0% 18.8% 20.5%	0 0 0 0	0% 0% 0% 0%
		303	**100%**	**0**	**0%**
Control Owner Self-Assessments	Completed On-time	100%		0%	
Critical / High Priority Risks with an Identified Control Issue	High Critical	0 1	0% 1.6%	0 0	0% 0%
		1	**0.8%**	**0**	**0%**
Past Due Remediation Actions		0		0	
Risks with Priority Changes		0		0	
Number of Control Issues by Risk Type		**Number**	**Percent**	**Number**	**Percent**
	Public Perception Technology Operational Compliance Financial	0 1 0 0 0	0.0% 100.0% 0.0% 0.0% 0.0%	0 0 0 0 0	0% 0% 0% 0% 0%
Control Issues by Division	DOR Administration DOR Audit DOR Business Tax DOR Gaming DOR Legal DOR Lottery DOR Motor Vehicles DOR Property Taxes DOR Special Taxes	0 0 0 0 0 0 1 0 0	0.0% 0.0% 0.0% 0.0% 0.0% 0.0% 100.0% 0.0% 0.0%	0 0 0 0 0 0 0 0 0	0% 0% 0% 0% 0% 0% 0% 0% 0%
Controls with Independent Audit Issues		**0**		**0**	
Controls with Repeat Issues		**0**		**0**	
Preventive vs. Detective Controls		35.8% vs. 70.4%		0% vs. 0%	
Controls by Frequency	Manually Daily Weekly Bi-Weekly Monthly Bi-Monthly Quarterly Semi-Annually Annually	59 23 5 5 37 3 6 1 23	36.4% 14.2% 3.1% 3.1% 22.8% 1.9% 3.7% 0.6% 14.2%	0 0 0 0 0 0 0 0 0	0% 0% 0% 0% 0% 0% 0% 0% 0%
		162	**100%**	**0**	**0%**

Appendix C – Independent Audit Report

See the following for Independent Auditor Reports

State Board of Internal Control
FY21 Work Plan

1st Quarterly Meeting (July - September)

- **Meeting Work**
    i. Sub-recipient audit findings
    ii. GOAC update
    iii. Discuss current and future agency framework implementations
- **Interim Work**
    i. Begin framework implementation at Department of Agriculture
    ii. Plan for further agency framework implementations

2nd Quarterly Meeting (October - December)

- **Meeting Work**
    i. Sub-recipient audit findings
    ii. GOAC updates
    iii. Quarterly state/agency internal control reports
    iv. Discuss current and future agency framework implementations
- **Interim Work**
    i. Begin framework implementation TBD
    ii. Plan for further agency framework implementations

3rd Quarterly Meeting (January - March)

- **Meeting Work**
    i. Sub-recipient audit findings
    ii. GOAC update
    iii. Discuss current and future agency framework implementations
- **Interim Work**
    i. Begin framework implementation TBD
    ii. Plan for further agency framework implementations

4th Quarterly Meeting (April - June)

- **Meeting Work**
    i. Sub-recipient audit findings
    ii. GOAC updates
    iii. Quarterly state/agency internal control reports
    iv. Discuss current and future agency framework implementations
    v. FY22 Work Plan
- **Interim Work**
    i. Begin framework implementation TBD
    ii. Plan for further agency framework implementations