

State of South Dakota

Self-assessment and internal control report

Date: 30 May 2019

FY 2019 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 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 initial self-assessments performed by the control owners in each division. The following activities were performed as part of the self-assessment:

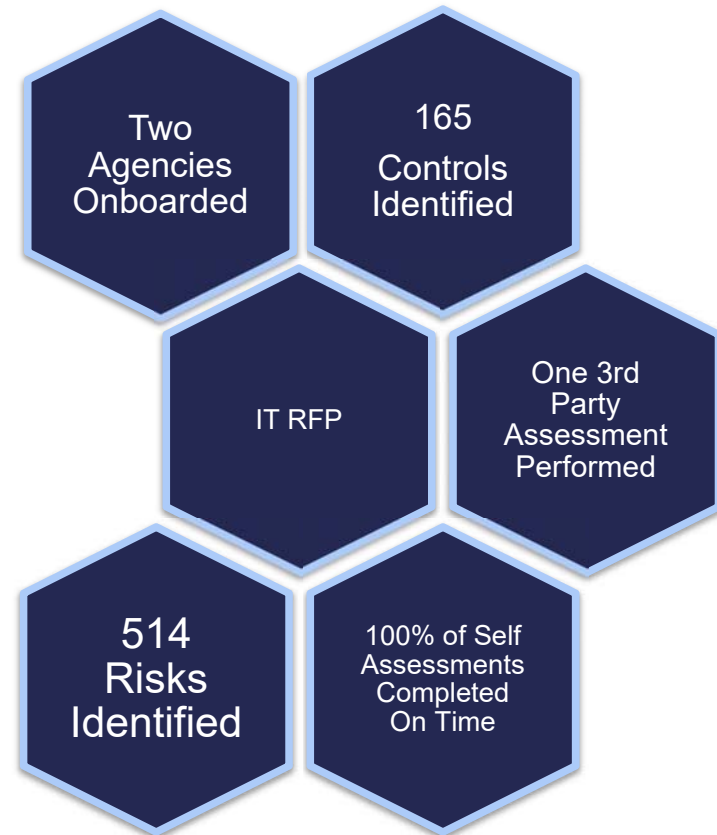
- Control owners and Agency Internal Control Officers completed a review of their objectives, risks and controls to ensure their matrix was up to date. This includes changing risks, risk ratings, objectives and prioritizations where necessary;
- Control owners performed a self-assessment on how their controls were operating;
- Control owners are documenting remediation plans for control deficiencies where applicable;
- The State Internal Control Officer reviewed the key information reported by all relevant parties and provided guidance where necessary.

Overall, 100% of controls were self-assessed within the given timeframe. Thirty control deficiencies were identified, and agencies are working to identify and implement remediation plans to ensure the risk is being managed.

State of South Dakota Internal Control Program Snapshot

Key accomplishments to date

Metric	Current period	Prior period
Number of overall findings	3	N/A
Number of remediation plans in progress	30	N/A
Number of issues related to IT	N/A	N/A
% High/Critical risks	35.2%	N/A
% High/Critical risks with deficiencies	17.1%	N/A
Number new risks identified	514	N/A
% Certifications completed on time	100%	N/A
Number new controls identified	165	N/A



Statewide Self-Assessment Results

Self-assessment and internal control report

Agency's represented in report:

Bureau of Finance and Management

Department of Revenue



Risk/ Control Data Points

Metric	Details	Current review period	Prior review period
Risk by Type	Public Perception	57 - 11.4 %	N/A
	Technology	49 - 9.8%	N/A
	Operational	183 - 36.7%	N/A
	Compliance	95 - 19.0%	N/A
	Financial	115 - 23.0%	N/A
Risks by Priority	Low	121 - 23.5%	N/A
	Medium	212 - 41.3%	N/A
	High	106 - 20.6%	N/A
	Critical	75 - 14.6%	N/A
Control Owner Self-Assessments Completed On-time		100%	N/A
Critical / High Priority Risks with an Identified Control Issue	High	17 - 16.0 %	N/A
	Critical	14 - 18.7%	N/A
Past Due Remediation Actions		0 - 0%	N/A
Risks with Priority Changes		0 - 0%	N/A
# Control Issues by Risk Type	Public Perception	4 - 7.0%	N/A
	Technology	8 - 16.3 %	N/A
	Operational	6 - 3.3 %	N/A
	Compliance	9 - 9.5%	N/A
	Financial	7 - 6.1%	N/A
Preventive vs. Detective Controls		39.3%/60.7%	N/A
Controls by Frequency	Daily	27 - 16.4%	N/A
	Weekly	9 - 5.5%	N/A
	Monthly	38 - 23.0%	N/A
	Quarterly	3 - 1.8%	N/A
	Semi-annually	1 - 0.6%	N/A
	Annually	28 - 17.0%	N/A
	Ad hoc	59 - 35.8%	N/A

Independent Audit Outcomes



Overview

The Department of Legislative Audit (DLA) conducted the state's single audit for fiscal year 2018. 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, the DLA audits the State's comprehensive annual financial report 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.

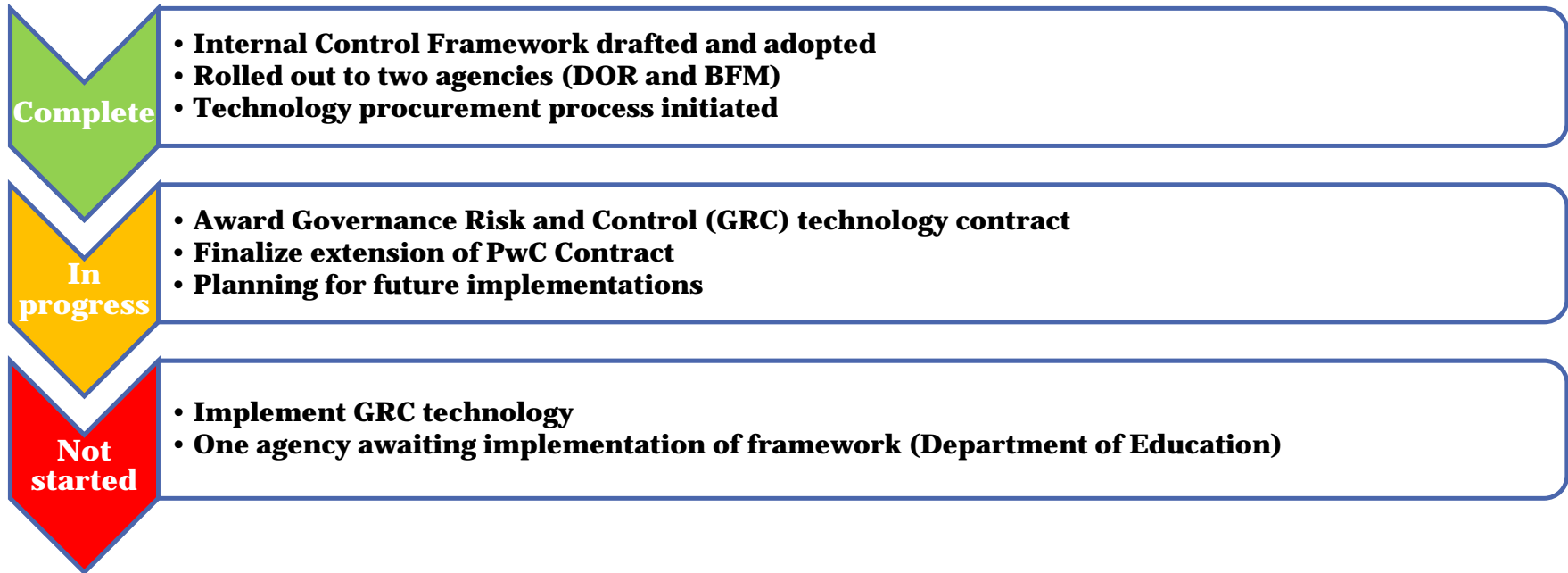
Results

The Department of Revenue had three financial statement audit findings. These are also captured in the Department's Risk and Control Matrix and constitute a control deficiency.

- 2018-001 Inadequate Controls Over Business Tax Revenue Reconciliations
- 2018-002 Inadequate Control Over Motor Fuel Tax Revenue Reconciliations
- 2018-003 Inadequate Controls Over Motor Vehicle Titles and Registrations (T&R) Revenue Reconciliations

Further information on these findings can be found in Appendix C – Independent Auditor Reports.

Internal Control Program Status update



Appendices

Appendix A – Status of Prior Year Findings

Appendix B - Agency Metrics Details

Appendix C – Independent Auditor Reports

Appendix A – Status of Prior Year Findings

#	Observation	Status	Comment
		In Progress	
		Overdue	
		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 and Management

Self-assessment and internal control report

Period since last review: N/A

Date of review: 29 April 2019

Agency Internal Control Officer

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

Control Owners

Colin Keeler, Director of
Financial Systems and
Operations

Keith Senger, Director of
Accounting Analysis and
Financial Reporting

Derek Johnson, Chief Budget
Analyst



Risk/ Control Data Points

Metric	Details	Current review period	Prior review period
Risk by Type	Public Perception Financial Technology Operational Compliance	0 - 0% 24 - 14% 13 - 7% 114 - 65% 24 - 14%	N/A N/A N/A N/A N/A
Risks by Priority	Low Medium High Critical	51 - 29% 99 - 57% 24 - 14% 1 - 1%	N/A N/A N/A N/A
Control Owner Self-Assessments Completed On-time		100%	N/A
Critical / High Priority Risks with an Identified Control Issue	High Critical	1 - 100% 0 - 0%	N/A N/A
Past Due Remediation Actions		0 - 0%	N/A
Risks with Priority Changes		0 - 0%	N/A
# Control Issues by Risk Type	Public Perception Technology Operational Compliance	0 - 0% 0 - 0% 0 - 0% 1 - 100%	N/A N/A N/A N/A
Control Issues by Division	Budget Analysis	1 - 100%	N/A
Control Owners with Identified Control Issues	Budget Analysis	1	N/A
Controls with Independent Audit Issues		0 - 0%	N/A
Controls with Repeat Issues		0 - 0%	N/A
Preventive vs. Detective Controls		80% vs. 20%	N/A
Controls by Frequency	Daily Weekly Monthly Quarterly Semi-Annually Annually Periodically	3 - 12% 1 - 4% 3 - 12% 3 - 12% 1 - 4% 5 - 20% 9 - 36%	N/A N/A N/A N/A N/A N/A N/A

Revenue

Self-assessment and internal control report

Period since last review: N/A

Date of review: 29 April 2019

Agency Internal Control Officer

John Hanson, Deputy Finance

Control Owners

John Hanson, Deputy Director Administration
Bobi Adams, Deputy Director Administration
Tom Valentine, Deputy Director Administration
Toni Richardson, Director Administration
Mike Houdyshell, Chief Legal
Kate Lemmel, Business Tax Accounting Manager
Doug Schinkel, Director Business Tax
Melissa Big Eagle, Accountant Motor Vehicles
Chris Keil, Motor Carrier Supervisor
Heather Villa, Deputy Director Motor Vehicles
Monica Weischedel, Deputy Director Motor Vehicles
Rosa Yaeger, Director Motor Vehicles
Wendy Semmler, Property Tax Manager

Risk/ Control Data Points

Metric	Details	Current review period	Prior review period
Risk by Type	Financial	91 – 28%	N/A
	Public Perception	57 – 18%	N/A
	Technology	36 – 11%	N/A
	Operational	69 – 21%	N/A
	Compliance	71 – 22%	N/A
Risks by Priority	Low	70 - 21%	N/A
	Medium	113 - 33%	N/A
	High	82 - 24%	N/A
	Critical	74 - 22%	N/A
Control Owner Self-Assessments Completed On-time		100%	N/A
Critical / High Priority Risks with an Identified Control Issue	High	16 - 53%	N/A
	Critical	14 - 47%	N/A
Past Due Remediation Actions		0 - 0%	N/A
Risks with Priority Changes		# - %	N/A
# Control Issues by Risk Type	Financial	7 – 21.0%	N/A
	Public Perception	4 – 12.0%	N/A
	Technology	8 – 24.5%	N/A
	Operational	6 – 18.0%	N/A
	Compliance	8 – 24.5%	N/A
Control Issues by Division	Administration	7 - 19%	N/A
	Legal	0 – 0%	N/A
	Business Tax	0 – 0%	N/A
	Motor Vehicle	14 – 39%	N/A
	Property Tax	6 – 17%	N/A
	Audits	0 – 0%	N/A
	Lottery	7 – 19%	N/A
	Gaming	2 – 6%	N/A

*Lesley Coyle, Director
 Property Tax
 Rachel Williams, Director
 Audits
 Marla Gruber, Lottery Sales
 Manager
 Tom Heiland, Lottery Ad
 Manager
 Brandi Hoerner, Lottery
 Security Manager
 Clark Hepper, Deputy
 Director Lottery
 Norm Lingle, Director
 Lottery
 Craig Sparrow, Deputy
 Director Gaming
 Susan Christian, Executive
 Director Gaming*



Control Owners with Identified Control Issues	John Hanson, Deputy Bobi Adams, Deputy Mike Houdyshell, Director Heather Villa, Deputy Monica Weischedel, Deputy Rosa Yaeger, Director Wendy Semmler, Property Mgr Rachel Williams, Director Tom Heiland, Advertising Mgr Brandi Hoerner, Security Mgr Clark Hepper, Deputy Norm Lingle, Director Craig Sparrow, Deputy	4 2 1 2 2 2 1 6 6 1 1 2 2 1 2	
Controls with Independent Audit Issues		3 - 8%	N/A
Controls with Repeat Issues		3 - 8%	N/A
Preventive vs. Detective Controls		32% / 68%	N/A
Controls by Frequency	Daily Weekly Monthly Annually Ad hoc / Ongoing	24 - 17% 8 - 6% 35 - 25% 23 - 16% 50 - 36%	N/A N/A N/A N/A N/A

Appendix C – Independent Audit Report

See the following for Independent Auditor Reports

DEPARTMENT OF REVENUE

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Financial Statement Audit Finding:

Finding No. 2018-001: Inadequate Controls over Business Tax Revenue Reconciliations

Type of Finding: Material Weakness

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the *Internal Control – Integrated Framework (2013 Framework)* defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 10 states, "The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels." and principle 12 states, "The organization deploys control activities through policies that establish what is expected and procedures that put policies into action."

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 16 states, "[m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results" and principle 17 states, "[m]anagement should remediate identified internal control deficiencies on a timely basis".

Condition:

The Department of Revenue (DOR) utilizes the CEDAR computer system to record business tax revenue received from individual taxpayers and the distributions of the revenue. The State's accounting system is used to record the gross revenue deposited from business taxes along with the taxes that were distributed to State funds or other governments. An important internal control is the reconciliation of the subsidiary record, the CEDAR system, to the State's accounting system.

As noted in prior audit finding No. 2017-001, the DOR had not completed reconciliations after April 2016. After discussion with our office the DOR completed a comparison between the two systems and identified reconciling items. However, the procedures performed by the DOR did not include identifying the adjustments needed to CEDAR or the State's accounting system for the reconciling items. For FY2018 we found that similar comparisons between the two systems were performed. We noted that the October 2017 reconciliation identified 48 documents dating back to 7/1/2015 as reconciling items. The absolute value of these documents was \$1,794,987.59. Reconciling items that are identified should be investigated and appropriately resolved on a timely basis.

Cause:

Internal controls over the business tax revenue reconciliation were not adequate to ensure the reconciliations are appropriately completed and business tax revenue is accurately reported.

DEPARTMENT OF REVENUE
(Continued)

Effect:

As a result of inadequate internal controls over business tax reconciliations, there is an increased risk the DOR is not able to prevent, detect and correct errors on a timely basis, increasing the likelihood of improper revenue recognition and reporting.

Repeat Finding from Prior Year:

Yes – Finding No. 2017-001

Recommendations:

1. We recommend that controls be implemented to ensure effective reconciliations of Business tax revenue and timely resolution of any issues.
2. We recommend formal policies and procedures be developed that provide guidance on the duties to be performed by the personnel responsible for ensuring the accuracy of business tax revenue.
3. We recommend monitoring be improved to ensure controls are operating as intended.

Views of Responsible Officials:

The Department concurs with the finding and offers the following corrective action plans.

As discussed last year, the department had experienced turnover in a critical position for an extended period of time. Following filling that critical position, DOR had also conducted Lean events and identified gaps in our staffing efforts. During the 2018 Legislative Session, we requested and were approved to hire an additional accountant for the Finance team. We have filled that position and have been working diligently to train, document and re-distribute the work load to strengthen the internal controls of the reconciliations. The Legislative Audit team has provided helpful feedback as we are developing policies and procedures.

The DOR Finance team has identified a primary accountant and a back-up for the completion of each reconciliation to ensure proper coverage in the event of absence or vacancy. All variances will be investigated with assistance from accounting staff within the respective division. Completed reconciliations will be approved by the Director of Finance each month, including documentation on reconciling items carrying over. Additionally, an internal audit by independent staff will occur to assure policies and procedures are appropriately followed.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Financial Statement Audit Finding:

Finding No. 2018-002: Inadequate Controls Over Motor Fuel Tax Revenue Reconciliations
Type of Finding: Material Weakness

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the *Internal Control – Integrated Framework (2013 Framework)* defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 10 states, "The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels" and principle 12 states, "The organization deploys control activities through policies that establish what is expected and procedures that put policies into action."

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 16 states, "[m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results" and principle 17 states, "[m]anagement should remediate identified internal control deficiencies on a timely basis".

Condition:

The Department of Revenue (DOR) utilizes the CEDAR computer system to record motor fuel tax revenue received from individual taxpayers and the distributions of the revenue. The State's accounting system (SDAS) is used to record the gross revenue deposited from motor fuel taxes along with the taxes that were distributed to State funds or other governments. An important internal control is the reconciliation of the subsidiary record, the CEDAR system, to the State's accounting system. Procedures performed by the DOR did not include identifying the adjustments needed to CEDAR or the State's accounting system for the reconciling items. Reconciling items that are identified should be investigated and appropriately resolved on a timely basis.

The following items were identified during testing of a sample of monthly reconciliations.

- a. The reconciliation for July 2017 included a reconciling item for a refund which was recorded on the taxpayer's account on CEDAR, but the refund was never made by the DOR and as such was not on SDAS. The CEDAR refund was initiated in July 2016.
- b. Multiple reconciling items were noted on the reconciliations dating back to FY2017. The DOR did not appear to be investigating and resolving these items.
- c. The January reconciliation contained a \$1.2 million amount that was used to balance the reconciliation. The \$1.2 million error occurred in a prior month and was not corrected for an additional three months after the reconciliation.

DEPARTMENT OF REVENUE
(Continued)

Cause:

The internal controls over motor fuel tax revenue reconciliations are not adequate to ensure the motor fuel tax revenue is accurately reported.

Effect:

As a result of inadequate internal controls over motor fuel tax reconciliations, there is a high risk the DOR is not able to prevent, detect and correct errors on a timely basis, increasing the likelihood of improper revenue recognition and reporting.

Repeat Finding from Prior Year:

No.

Recommendations:

1. We recommend that controls be implemented to ensure effective reconciliations of motor fuel tax revenue and timely resolution of any issues.
2. We recommend formal policies and procedures be developed that provide guidance on the duties to be performed by the personnel responsible for ensuring the accuracy of motor fuel tax revenue.
3. We recommend monitoring be improved to ensure controls are operating as intended.

Views of Responsible Officials:

The Department concurs with the finding and offers the following corrective action plans.

As discussed last year, the department had experienced turnover in a critical position for an extended period of time. Following filling that critical position, DOR had also conducted Lean events and identified gaps in our staffing efforts. During the 2018 Legislative Session, we requested and were approved to hire an additional accountant for the Finance team. We have filled that position and have been working diligently to train, document and re-distribute the work load to strengthen the internal controls of the reconciliations. The Legislative Audit team has provided helpful feedback as we are developing policies and procedures.

The DOR Finance team has identified a primary accountant and a back-up for the completion of each reconciliation to ensure proper coverage in the event of absence or vacancy. All variances will be investigated with assistance from accounting staff within the respective division. Completed reconciliations will be approved by the Director of Finance each month, including documentation on reconciling items carrying over. Additionally, an internal audit by independent staff will occur to assure policies and procedures are appropriately followed.

The refund and payment policy has been updated to include a notification to the originator when a refund or requested payment has been processed. This will help to avoid the oversight that occurred with respect to the refund.

DEPARTMENT OF REVENUE

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Financial Statement Audit Finding:

Finding No. 2018-003: Inadequate Controls over Motor Vehicle Titles & Registrations (T&R) Revenue Reconciliations

Type of Finding: Significant Deficiency

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control – Integrated Framework (2013 Framework) defined internal control as:

... a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 10 states, "The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels." Principle of internal control 12 states, "The organization deploys control activities through policies that establish what is expected and procedures that put policies into action."

The Government Accountability Office – *Standards for Internal Control in the Federal Government* principle of internal control 16 states, "[m]anagement should establish and operate monitoring activities to monitor the internal control system and evaluate the results" and principle 17 states, "[m]anagement should remediate identified internal control deficiencies on a timely basis".

Condition:

The Department of Revenue (DOR) utilized the SDCARS system to record and track T&R revenue from individual taxpayers and distributions of the revenue. The State's accounting system (SDAS) is used to record the gross revenue deposited from business taxes along with the taxes that were distributed to State funds or other governments. An important control is the reconciliation of the subsidiary record, the SDCARS system, to SDAS. The DOR had not performed adequate reconciliations of the T&R tax revenue and distributions from the SDCARS system to SDAS since 2016.

While a year-to-date (YTD) and monthly reconciliations were performed, reconciling items were not resolved. The YTD reconciliations listed several reconciling items dating back to July 2016 that remained on the FY2018 reconciliations and contained line items such as "out of balance" that could not be duplicated by the auditors.

The monthly reconciliations did not adequately compare SDAS to SDCARS and did not consider variances in county remittances. For the month of February, one county missed a payment of \$142,583.29 and another county overpaid by \$241,866.86. These payment variances were listed on a separate tracking worksheet, but not addressed as reconciling items on the face of the reconciliation. Two months had discrepancies that were caused by typos within the data used to build the reconciliation, causing reconciling items that didn't exist.

DEPARTMENT OF REVENUE
(Continued)

Cause:

Controls and formal policies and procedures are not adequate to ensure the T&R revenue is accurately reported.

Effect:

As a result of the inadequate internal controls over T&R reconciliations, there is a higher risk that DOR would not be able to prevent, detect, and correct errors on a timely basis increasing the likelihood of improper revenue recognition, inaccurate reporting and noncompliance with State laws.

Repeat Finding from Prior Year:

Yes – Finding No. 2017-005

Recommendations:

1. We recommend that controls be implemented to ensure effective reconciliations over the recording of T&R revenue and the timely resolution of any issues.
2. We recommend formal policies and procedures be developed that provide guidance on the duties to be performed by the personnel responsible for ensuring the accuracy of T&R revenue
3. We recommend monitoring be improved to ensure controls are operating as intended.

Views of Responsible Officials:

The Department concurs with the finding and offers the following corrective action plans.

As discussed last year, the department had experienced turnover in a critical position for an extended period of time. Following filling that critical position, DOR had also conducted Lean events and identified gaps in our staffing efforts. During the 2018 Legislative Session, we requested and were approved to hire an additional accountant for the Finance team. We have filled that position and have been working diligently to train, document and re-distribute the work load to strengthen the internal controls of the reconciliations. The Legislative Audit team has provided helpful feedback as we are developing policies and procedures.

The DOR Finance team has identified a primary accountant and a back-up for the completion of each reconciliation to ensure proper coverage in the event of absence or vacancy. All variances will be investigated with assistance from accounting staff within the respective division. Completed reconciliations will be approved by the Director of Finance each month, including documentation on reconciling items carrying over. Additionally, an internal audit by independent staff will occur to assure policies and procedures are appropriately followed.

While the variances were not listed on the cover sheet of the reconciliation, they were documented and were actively investigated and resolved. We have also spent a significant amount of time working with Bureau of Information and Telecommunications (BIT) programmers to re-design monthly reports to improve the reconciliation efforts between SDCars and the state accounting system.