

# 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:

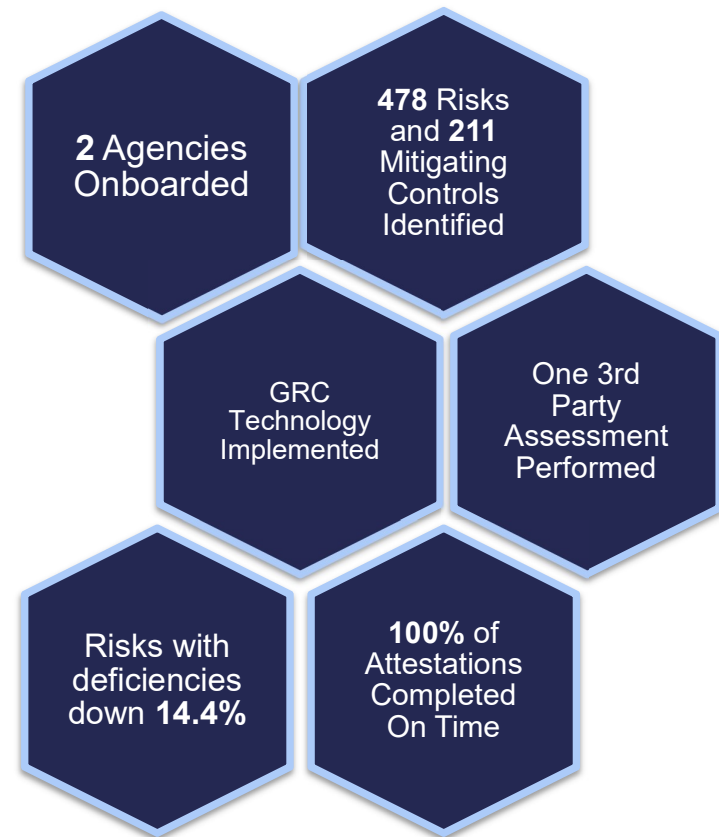
- Control owners and Agency Internal Control Officers completed a review of their objectives, risks and controls to ensure their matrix was up to date. This includes changing risks, risk ratings, objectives and prioritizations where necessary;
- Control owners completed an attestation for their respective 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

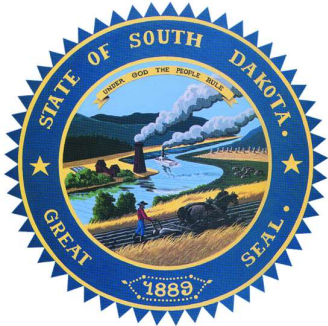


# Statewide Self-Assessment Results

Agencies represented in  
report:

Bureau of Finance and  
Management

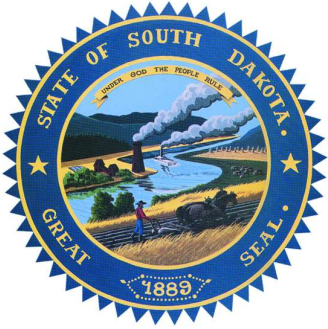
Department of Revenue



## 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%
		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 31<sup>st</sup>. 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.

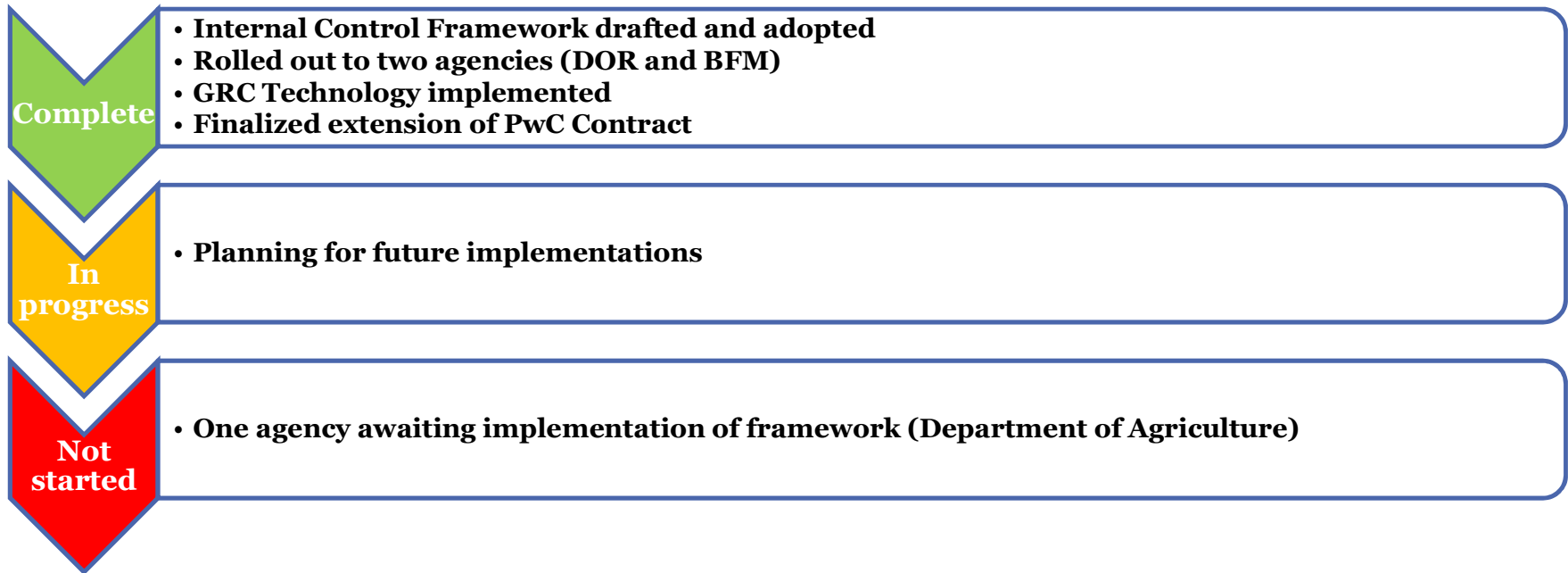
## Results

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*



# ***Appendices***

**Appendix A – Status of Prior Year Findings**

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**Appendix B - Agency Metrics Details**

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**Appendix C – Independent Auditor Reports**

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## ***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	Public Perception Technology Operational Compliance Financial Multiple	Number	Percent	Number	Percent
		0	0.0%	0	0%
		13	7.4%	0	0%
		114	65.1%	0	0%
		24	13.7%	0	0%
		24	13.7%	0	0%
		0	0.0%	0	0%
		175	100%	0	0%
Risk by Priority	Low Medium High Critical	51	29.1%	0	0%
		99	56.6%	0	0%
		24	13.7%	0	0%
		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 Critical	0	0%	0	0%
		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	Public Perception Technology Operational Compliance Financial	Number	Percent	Number	Percent
		0	0%	0	0%
		0	0%	0	0%
		0	0%	0	0%
		0	0%	0	0%
		0	0%	0	0%
		0	0%	0	0%
Control Issues by Division	Budget Analysis EMFO Financial Reporting Financial Systems and Operations State Economist	0	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		69.4% vs. 30.6%		0% vs. 0%	
Controls by Frequency	Manually Daily Weekly Bi-Weekly Monthly Bi-Monthly Quarterly Semi-Annually Annually	22	44.9%	0	0%
		8	16.3%	0	0%
		1	2.0%	0	0%
		0	0.0%	0	0%
		4	8.2%	0	0%
		0	0.0%	0	0%
		2	4.1%	0	0%
		1	2.0%	0	0%
		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	Public Perception Technology Operational Compliance Financial Multiple	Number	Percent	Number	Percent
		27	8.9%	0	0%
		24	7.9%	0	0%
		58	19.1%	0	0%
		51	16.8%	0	0%
		53	17.5%	0	0%
		90	29.7%	0	0%
		<b>303</b>	<b>100%</b>	<b>0</b>	<b>0%</b>
Risk by Priority	Low Medium High Critical	72	23.8%	0	0%
		112	37.0%	0	0%
		57	18.8%	0	0%
		62	20.5%	0	0%
		<b>303</b>	<b>100%</b>	<b>0</b>	<b>0%</b>
Control Owner Self-Assessments	Completed On-time	100%		0%	
Critical / High Priority Risks with an Identified Control Issue	High Critical	0	0%	0	0%
		1	1.6%	0	0%
		<b>1</b>	<b>0.8%</b>	<b>0</b>	<b>0%</b>
Past Due Remediation Actions		0		0	
Risks with Priority Changes		0		0	
Number of Control Issues by Risk Type	Public Perception Technology Operational Compliance Financial	Number	Percent	Number	Percent
		0	0.0%	0	0%
		1	100.0%	0	0%
		0	0.0%	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	0.0%	0	0%
		0	0.0%	0	0%
		0	0.0%	0	0%
		0	0.0%	0	0%
		0	0.0%	0	0%
		0	0.0%	0	0%
		1	100.0%	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	36.4%	0	0%
		23	14.2%	0	0%
		5	3.1%	0	0%
		5	3.1%	0	0%
		37	22.8%	0	0%
		3	1.9%	0	0%
		6	3.7%	0	0%
		1	0.6%	0	0%
		23	14.2%	0	0%
		<b>162</b>	<b>100%</b>	<b>0</b>	<b>0%</b>

# ***Appendix C – Independent Audit Report***

***See the following for Independent Auditor Reports***

## DEPARTMENT OF REVENUE

### CURRENT AUDIT FINDING AND RECOMMENDATIONS

Financial Statement Audit Finding:

**Finding No. 2019-001: Inadequate Segregation of Duties over Access Rights**

**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." 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:**

In the prior audit, we noted that two employees had edit access rights to both the CEDAR system and the South Dakota Accounting System (SDAS). We communicated to management that only necessary CEDAR system edit rights be provided for Department of Revenue (DOR) accountants or that policies be developed to ensure that the accountants with those rights do not have access to any cash or checks. Follow-up testing for FY2019 identified that the DOR's entire accounting department has edit access rights to both the CEDAR system and SDAS. Policies and procedures have not been developed to compensate for this weakness. This represents a significant lack of segregation of duties and presents a general security risk.

**Cause:**

The internal controls over access rights are not adequate to ensure proper segregation of duties.

**Effect:**

As a result of inadequate controls over access rights, an employee could alter records without the knowledge of management or other staff. This could allow for hiding errors, incorrect or improper returns, or the misappropriation of assets.

**Repeat Finding from Prior Year:**

No

DEPARTMENT OF REVENUE  
(Continued)

Recommendations:

1. We recommend that controls be implemented to ensure segregation of duties among accounting staff.
2. We recommend formal policies and procedures be developed to provide guidance regarding access rights.
3. We recommend the implementation of monitoring so that there is oversight if the duties cannot be separated.

Views of Responsible Officials:

The department concurs with this audit finding.