

**State of South Dakota
Auditee Prepared Corrective Action Plan
For the Fiscal Year Ended June 30, 2017**

DEPARTMENT OF REVENUE

Finding 2017-001: Inadequate Business Tax Internal Controls

Corrective Action Plan: The Department of Revenue (DOR) experienced an extended vacancy in a key accounting position from April, 2016 through November, 2016. Following the exit of the employee, it was determined that documentation and back up support was not sufficient. DOR has begun to document processes, reviewed the delegation of duties and is identifying back up support for all financial processes. Further, the Department has created a calendar of financial events and timelines, and meets regularly to review the checklist to ensure all financial operations are occurring timely. All reconciliations will be performed monthly to identify any discrepancies and corrected as soon as possible to ensure accurate distribution and transfer of funds. It is important to note that, during this time, high level reconciliations were and will continue to be completed monthly to ensure payments to municipalities are accurate.

With regard to the additional items listed, the DOR provides the following action plan:

- a) Based on a query from the general ledger, the Company 8000 agency fund was negative for two (2) days on December 27, 2016 in the amount of (\$3,957,412.37) and on December 28, 2016 in the amount of (\$1,977,158.92) [see query below].

Query of GL_SD_Daily_Cash_Bals

<u>Year</u>	<u>Comp</u>	<u>Center</u>	<u>Beg Balance</u>	<u>Daily Debits</u>	<u>Daily Credits</u>	<u>End Balance</u>	<u>Eff Date2</u>
2017	8000	0220	36,643,376.98	45,301,395.55	30,820,945.85	51,123,826.68	12/21/2016
2017	8000	0220	51,123,826.68	7,850,988.11	4,163,397.49	54,811,417.30	12/22/2016
2017	8000	0220	54,811,417.30	4,716,998.99	49,973,813.67	9,554,602.62	12/23/2016
2017	8000	0220	9,554,602.62	0.00	2,142.73	9,552,459.89	12/24/2016
2017	8000	0220	9,552,459.89	0.00	0.00	9,552,459.89	12/25/2016
2017	8000	0220	9,552,459.89	0.00	0.00	9,552,459.89	12/26/2016
2017	8000	0220	9,552,459.89	5,960,746.36	19,470,618.62	(3,957,412.37)	12/27/2016
2017	8000	0220	(3,957,412.37)	4,051,222.97	2,070,969.52	(1,977,158.92)	12/28/2016
2017	8000	0220	(1,977,158.92)	132,226,942.90	88,836,612.33	41,413,171.65	12/29/2016

Each month we monitor the cash balance closely and the department also works very closely with the Bureau of Finance & Management to assure that the general fund does not go negative, especially when they are taking into account payments for payroll and state aid to education.

In accordance with SDCL 4-8-14 & 4-8-14.1, procedures have been adopted to provide guidelines for agencies that may have funds which incur negative cash balances.

SDCL 4-8-14. "Anticipation of revenue by borrowing from other funds. If moneys for the state have been actually provided for by levy of taxes, sale of bonds or warrants, or otherwise, and the moneys have not been collected into the state treasury, but the

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receipt of the moneys is reasonably certain, the state auditor may anticipate the receipt of the moneys into the fund by drawing temporarily upon the moneys in any other fund of the state for which there is not an immediate use.”

SDCL 4-8-14.1. “Issuance of warrants on funds borrowed in anticipation of revenue. Notwithstanding any other provision of law, the state auditor may issue warrants on any money actually provided for pursuant to §4-8-14 in an amount not to exceed the amount of revenues anticipated.”

At the beginning of each fiscal year, agencies must submit to the Office of the State Auditor a Negative Cash Request form. For this particular fund (8000 - 0220) a Negative Cash Request form was submitted on June 28, 2016 prior to the start of the fiscal year 2017. The reasoning identified is the possible occurrence and timing of cash receipts into the fund, transfers to the general fund, other agency payments, and the payments to municipalities and special jurisdictions for those funds that we collect on their behalf. This form also identifies that there may be a period the fund will have a negative balance at a particular date & time. During the past six years the balance of this fund has been positive at the end of each month. Any negative balance was corrected by deposits anticipated and received within several business days.

In this instance, we knew that we would have a bank file in excess of \$50 million on the second to last business day of the month. The actual remittances from taxpayers filing and paying electronically and selecting the second to last business day was in fact \$54.7 million on December 29, 2016. On December 21, 2016, the municipal / special jurisdiction process was completed and a voucher (R02BTX7213) was generated and entered on the state’s accounting system effectively debiting the \$16.3 million from the agency 8000 Due to Other Funds 2202052 account and crediting into the Due to Other Governments 2301054 account. The municipal / special jurisdiction payments were paid on December 27, 2016 along with the special aid payments. While running ‘negative’ is not preferred, the department was attempting to assure the general fund did not have any cash flow issues. Last year’s Senate Bill SB36 changed the filing and payment dates of electronic filers and has addressed this issue.

- b) The Business Tax division has added an additional check to the process to reconcile the city split in the Capitalizing on Efficiency and Data-Accelerating Revenue (CEDAR) system to the journal voucher to ensure all payments have been added to the voucher for the process of payment. This review will be completed by the Accounting Manager responsible for the city split process.

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- c) The Department of Revenue will conduct a Lean event to review and improve the process of changing administrative fee rates based on the tax types administered.

Municipalities may change their rates in either January or July of any given year. A check will be put in place to review the number of tax types administered and the administrative fees being charged prior to January and July to ensure the correct administrative fee rate is being charged. Further, the town of Hurley has been credited the difference the municipality was owed.

- d) The Department of Revenue's practice has been to include in the fee to municipalities and notify those active licensees who may have filed zero dollar returns for a variety of reasons. First, a zero dollar return could mean that the taxpayer is merely delinquent at the point in time that the data is reviewed for the count. There are also different filing periods (i.e., monthly, bi-monthly, quarterly, semi-annual, annual or a custom filing period) which could explain a zero dollar return. Our goal is to be fair and consistent for all municipalities affected by this process. We will also review this process in the Lean event noted in item c) above to determine if circumstances have changed or if there is a more fair and consistent method to use in this process.

Contact Persons: John Hanson, Finance Officer and Doug Schinkel, Director of Division of Business Tax

Anticipated Completion Date: October 1, 2017

Finding 2017-002: Inadequate Internal Controls Over Cash Receipting

Corrective Action Plan: The Department of Revenue (DOR) is developing a new procedure for opening and distributing mail. All mail will be opened by no fewer than two people at all times. During this process, all monies will be logged and checks restrictively endorsed. Mail, with monies, will then be delivered to the designated employees throughout the department to be processed. A copy of the log sheet including who is in possession of the monies will accompany the mail and a second copy will be delivered to the Finance Office. Once processed, the monies will be delivered to the Finance Office to be remitted to the State Treasurer's Office. The Finance Office will use the log to ensure all monies are receipted within the statutory timeframe. This deposit will be reconciled against the mail log sheets and any discrepancies will need to be addressed and accounted for. This new procedure will be implemented in August, 2017, after training staff of the new procedure in July.

Contact Person: John Hanson, Finance Officer

Anticipated Completion Date: August 31, 2017

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Finding 2017-003: Lack of Motor Fuel Manual Return Waivers

Corrective Action Plan: Currently, we do not have an official form available to request a waiver. The Motor Fuel staff of the Motor Vehicle Division will create an official form to allow taxpayers to request a waiver to file either returns or reports electronically. This form, once approved, will then be an attached document to the record in the Capitalizing on Efficiency and Data-Accelerating Revenue (CEDAR) system.

The Motor Fuel staff will identify all taxpayers filing manually without a waiver and get a waiver in place, if requested by the taxpayer. Each waiver will be reviewed annually. The Department of Revenue (DOR) will continue to work with taxpayers to move to electronic filing of returns and reports. DOR will also develop training for licensees to increase the electronic filing by taxpayers.

The Department of Revenue will work with the Bureau of Information and Telecommunications to make programming enhancements within the CEDAR system. Currently, the system does not allow for multiple amended returns for the same period to be made electronically. We will expand the functionality to allow taxpayers to file their amended returns electronically and provide notification to staff when amended returns are filed to follow up on the reasons for the amendment. Further, we will program a notification to Motor Fuel staff when a manual return has been received by the Remittance Center, located in Sioux Falls. Currently, if a manual return is filed, as long as there are no violations on the return, Motor Fuel staff may not be aware the taxpayer filed manually without a proper waiver in place.

Contact Person: Lisa Weyer, Director of Division of Motor Vehicle

Anticipated Completion Date: August 31, 2017

Finding 2017-004: Insufficient Evidence for Approval of Monthly Revenue Corrections

Corrective Action Plan: The vacating employee in question left the Department of Revenue April 13, 2016 to move to another state agency. At that time, the employee's user id was inactivated, eliminating the use of the electronic signature in the Capitalizing on Efficiency and Data-Accelerating Revenue (CEDAR) computer system. An amended list of authorized signatures was also sent to the State Auditor's office to remove the employee's authority. However, revenue corrections do not go through the State Auditor's office nor are these documents in question generated by the CEDAR system. A typed name was inadvertently missed in the electronic document we use for revenue corrections.

All digital signatures and typed names have been removed from electronic documents. The Department of Revenue will only authorize revenue correction documents with an original signature with no exceptions.

Contact Person: Toni Richardson, Director of Administration

Anticipated Completion Date: July 24, 2017

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Finding 2017-005: Inadequate Motor Vehicle Reconciliations

Corrective Action Plan: The Department of Revenue (DOR) experienced an extended vacancy in a key accounting position from April, 2016 through November, 2016. Following the exit of the employee, it was determined that documentation and back up support was not sufficient. DOR has begun to document processes, review the delegation of duties and is identifying back up support for all financial processes. Further, the Department has created a calendar of financial events and timelines, and meets regularly to review the checklist to ensure all financial operations are occurring timely. All reconciliations will be performed monthly to identify any discrepancies and corrected as soon as possible to ensure accurate distribution and transfer of funds.

The SDCars titles and registration system programming will be updated to accurately reflect and account for the appropriate distribution of funds and reporting. Finally, going forward, legislative changes requiring programming updates to systems will be handled through formal project management to ensure all affected divisions participate in the solution to be compliant with the new laws.

Contact Persons: John Hanson, Finance Officer and Lisa Weyer, Director of Division of Motor Vehicle

Anticipated Completion Date: September 1, 2017

Finding 2017-006: Inadequate Bank Tax Internal Controls

Corrective Action Plan: With regard to item a): The Division of Banking (DOB) provides a list of newly licensed financial businesses to the Department of Revenue (DOR) monthly. The DOR policy has been updated to include additional controls on the initial actions of the department upon receipt of the list. First, the responsible employee will review the Capitalizing on Efficiency and Data-Accelerating Revenue (CEDAR) system to determine if the business is a new account, a branch or subsidiary of an existing account. If not associated with another account, the business will be entered into the CEDAR system and a letter requesting additional information will be sent to the business. Once this process has been completed each month, a notification will be sent to the Bank Franchise Tax Specialist, the Finance Officer, the Director of Property & Special Taxes and the Director of Audits. This process will be completed within 20 days of receipt of the list from DOB.

With regard to item b): The policy in Bank Franchise Tax is consistent with Business Tax policy in that delinquent taxpayers receive only three billing notices if no additional activity occurs on the taxpayer ledger. We will work with the Bureau of Information and Telecommunications to create a report within our CEDAR tax system to show those delinquent taxpayers who have received three billing notices and remained delinquent. The Bank Franchise Tax Specialist will make contact to attempt to resolve the taxpayer delinquency or collect any balance due in

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accordance with the Bank Franchise Delinquent Returns policy. The Bank Franchise Tax Specialist will continue to notify the Division of Banking of any bank tax discrepancies at year-end to halt renewal of annual licensing until those discrepancies are resolved.

The Department of Revenue will also update procedures to require additional documentation and comments linked to the account in the CEDAR tax system to better document actions taken with regard to accounts. Also, the DOR will update the initial information request letter and form to inquire if the business is a trust company.

Finally, the Department of Revenue will be requesting an additional Full Time Equivalent (FTE) position to help administer, properly account for, and ensure compliance with this labor-intensive program as recommended by the Department of Legislative Audit.

Contact Person: Jason Evans, Deputy Director Division of Property and Special Taxes

Anticipated Completion Date: August 31, 2017

DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES

Finding No. 2017-007: Inadequate Monitoring Controls Over Program Income

Corrective Action Plan: The Department of Environment and Natural Resources will monitor the surcharge fees collected from loan repayments. The Grant and Loan Specialists will monitor the open and closed capitalization grants and will verify that the surcharge fees collected from each loan repayment are deposited in either the restricted or discretionary state administrative accounts.

Contact Person: Jonathan Peschong, Grant and Loan Specialist II

Anticipated Completion Date: September, 2017

DEPARTMENT OF SOCIAL SERVICES

Finding No. 2017-008: Inadequate Controls over Subrecipient Monitoring – Aging Cluster

Corrective Action Plan: Long Term Services and Support (LTSS) will review and enhance internal controls to ensure monitoring assessments occur on a timely basis, and are communicated to and addressed by subrecipients. LTSS completed the communication of the monitoring assessments to the four subrecipients referred to in the finding on March 22, 2018. LTSS will review and enhance procedures to ensure subrecipients comply with regulations. LTSS will implement a second level review of subrecipient assessments.

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Contact Person: Laurie Mikkonen, Chief Financial Officer and Yvette Thomas, Director of Long Term Services and Support

Anticipated Completion Date: June 30, 2018

DEPARTMENT OF GAME, FISH AND PARKS

Finding No. 2017-009: Inadequate Controls over Reporting

Corrective Action Plan: The Department of Game, Fish and Parks implemented additional procedures to formally document the internal reviews and approvals of license certification and financial status reports that occur prior to reports being submitted to the U.S. Fish and Wildlife Service.

Contact Person: Chris Petersen, Finance Officer

Anticipated Completion Date: March, 2018

Finding No. 2017-010: Revenue from hunting and fishing licenses was used for purposes other than for the administration of the State fish and wildlife agency.

Corrective Action Plan: The Department of Game, Fish and Parks and the Bureau of Finance and Management believe allocating lease payment costs evenly to the users of the system is appropriate as these fixed costs are not usage dependent. See Schedule of Prior Audit Findings – Finding No. 2016-012.

The Department of Game, Fish and Parks, the Bureau of Finance & Management, and the Bureau of Information & Telecommunications will review allocation methods.

Contact Person: Chris Petersen, Finance Officer

Anticipated Completion Date: Not applicable

DEPARTMENT OF EDUCATION

Finding No. 2017-011: Lack of Written Policy Over Cash Management

Corrective Action Plan: The Department of Education will establish and implement a written policy regarding cash management.

Contact Persons: Lisa Rae, Deputy Director and Tamara Darnall, Division Director of Finance and Management.

Anticipated Completion Date: April, 2018

SOUTH DAKOTA ELLSWORTH DEVELOPMENT AUTHORITY

The following was issued under a separate audit of the Ellsworth Development Authority by Ketel Thorstenson, LLP.

Finding 2017-012: Audit Adjustment

Corrective Action Plan:

1. Management and certified public accountant (CPA) will continue to work closely and reconcile transactions – periodically, as needed, and throughout the fiscal year – to include tracking Readiness and Environmental Protection Integration program (REPI) financial transactions, costs and estimates.
2. In addition, to ensure internal use only, South Dakota Ellsworth Development Authority (SDEDA) will label our REPI excel “as intended for internal control use only and management purposes” and “not for accounting or auditing”. However, SDEDA, working closely with our CPA, will provide a REPI financial statement / update, based on the fiscal year at hand.
3. Management and CPA will also be diligent in reviewing transactions that may span fiscal year-ends to ensure consistent reporting in the correct accounting period.

Contact Persons: Scott Landguth, Executive Director; and David Kneafsey, Operations Manager

Anticipated Completion Date: October 1, 2017

DEPARTMENT OF AGRICULTURE SOUTH DAKOTA SOYBEAN RESEARCH AND PROMOTION COUNCIL

The following was issued under a separate audit of the Soybean Research and Promotion Council by Eide Bailly, LLP.

Finding No. 2017-013: Preparation of Full Disclosure Financial Statements and Restatement

Corrective Action Plan: Since it is not cost-effective for an organization of our size to have an individual on staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our financial statements as part of the annual audit. We have designated a member of management to review the propriety of the draft financial statements and accompanying notes to the financial statements.

**DEPARTMENT OF AGRICULTURE
SOUTH DAKOTA CORN UTILIZATION COUNCIL**

The following was issued under a separate audit of the Corn Utilization Council by Eide Bailly, LLP.

Finding No. 2017-014: Preparation of Financial Statements

Corrective Action Plan: Since it is not cost-effective for an organization of our size to have an individual on staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our financial statements as part of the annual audit. Management and the board of directors will review for propriety the draft financial statements and accompanying notes to the financial statements.