

SOUTH DAKOTA STATE BRAND BOARD

INTERNAL CONTROL REVIEW

Fiscal Years 2023 and 2022

SOUTH DAKOTA STATE BRAND BOARD
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427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE, SD 57501-5070
(605) 773-3595

RUSSELL A. OLSON
AUDITOR GENERAL

REPORT ON THE LIMITED STUDY OF SELECT INTERNAL CONTROLS
PERFORMED AS AGREED TO BY THE SOUTH DAKOTA DEPARTMENT OF AGRICULTURE
AND NATURAL RESOURCES AND THE SOUTH DAKOTA STATE BRAND BOARD

South Dakota Department of Agriculture and Natural Resource
523 E Capitol Ave.
Pierre, South Dakota

and

South Dakota State Brand Board
209 W Dakota Ave.
Pierre, South Dakota

We have made a limited study of selected internal controls of the South Dakota State Brand Board (Brand Board) for fiscal years 2023 and 2022. Our study was limited to selected accounting controls as requested by the South Dakota Department of Agriculture and Natural Resources and agreed to in an engagement letter by them and the Brand Board. The specific areas, that were reviewed were limited to the following:

1. Review the cash receipting and depositing internal controls to determine their adequacy and that it is accomplished in a timely manner.
2. Review the payroll process as it relates to how the information is loaded by central staff which will also include the travel reimbursement process.
3. Review how the local checking account is used, monitored, and reconciled. This review will include determining if they are forgoing interest earnings and if the proper taxes are being collected for those amounts paid through the local account.

Our study was not conducted in accordance with the standards established by the American Institute of Certified Public Accountants for the purpose of giving an opinion on internal control in effect at the Brand Board.

The management of the Brand Board is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objective of internal controls is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general-purpose financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operations of policies and procedures may deteriorate.

Our study was more limited than would be necessary to express an opinion on internal control of the Brand Board. Also, our study would not necessarily disclose all significant weaknesses in internal controls of the Brand Board. Accordingly, we do not express an opinion on internal control of the Brand Board in effect for fiscal years 2023 and 2022.

However, our study did disclose the following weaknesses in internal controls, related to the scope of our review, of the Brand Board in effect during fiscal years 2023 and 2022, as discussed below:

- a. The Executive Director stated that the Brand Board's policy is to make deposits weekly. Administrative Rule (ARSD) 06:03:01:01 requires that *"Funds destined for the state treasurer's office may be held for more than one working day if the amount to be remitted is under \$500. However, all funds held by an agency shall be remitted every Thursday"*. Through our review it was determined, that in many instances, deposits were not being made timely as defined by ARSD 06:03:01:01 or the Brand Board's policy.

We recommend that the Brand Board design and implement an internal control system to provide for the timely depositing of funds as required by ARSD 06:03:01:01.

- b. Due to its limited number of office staff and the volume of payments being received by the Brand Board, duties are not fully segregated as they relate to the cash receipting, depositing and reconciling functions of the Brand Board. Ideally duties would be segregated so that one individual does not handle a transaction from its inception to its completion. Management does exercise oversight over these functions; however, it is done on more of an informal basis.

While this situation is not unique to boards of the State of South Dakota, we do recommend that the Brand Board further evaluate how they could design and implement an internal control system that would better segregate the roles involved with the cash receipting, depositing and reconciling functions. We would further recommend formalizing management's review function and documenting the results of this oversight.

- c. Reconciliations were not being performed between the local ownership inspection certificates submitted with the local inspection payments and the carbon copies of the certificates submitted to the Pierre office at a later date. While the board does have compensating controls that achieve some of the same objectives of this added control, we do not feel that they fully compensate based on the potential risks with this process.

We recommend the Board consider the cost benefit of performing these reconciliations and implement further controls, if deemed appropriate, to ensure the proper amounts are being submitted for the local inspections being performed.

Additional reporting based on the scope of the review:

- d. An analysis was performed to determine if the Brand Board was foregoing interest earnings as a result of them utilizing the local bank account. While there would be lost interest earnings relating to not having the funds deposited in the State's Cash Flow Portfolio, it appears that the cost of processing the additional local bank account transactions through the State Accounting System would offset the potential interest earnings. The Brand Board is currently transferring excess cash out of the local account and into the State Treasury twice a year. If the Brand Board wishes to maximize interest earnings this could be performed more often.
- e. Our review included determining if the proper tax withholdings were deducted for payments made from the local bank account. We made an inquiry of the Executive Director as to how this was being handled and she stated that only expenses not subject to withholdings are reimbursed through the local account and that expenses that are subject to withholdings are ran through the state's accounting system. Our testing did not disclose any expenses being ran through the local account that would be subject to withholdings.

This report is intended solely for the use of management and the governing board and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



Russell A. Olson
Auditor General

February 6, 2024

SOUTH DAKOTA BRAND BOARD

209 W Dakota Ave., Pierre SD 57501
Phone 605 773 3324 Fax 605 773 7122

Internal Controls Review Brand Board's Response Fiscal Years 2023 and 2022

- a. *Recommendation:* Brand Board design and implement an internal control system to provide for the timely depositing of funds as required by ARSD 06:03:01:01.

Corrective Action: An internal control system has been implemented to ensure timely deposits are made.

- b. *Recommendation:* Brand Board evaluate how they could design and implement an internal control system that would better segregate the roles involved with cash receipting, depositing and reconciling functions.

Corrective Action: Brand Board has evaluated how segregation of duties, with limited staff, could be structured so one individual does not handle a transaction from inception to completion. Modifications to job duties have been made to insure one individual does not handle a transaction from inception to completion. Management has formalized a review function for reconciling deposits.

- c. *Recommendation:* Brand Board consider the cost benefit of performing reconciliations and implementing further controls with local ownership inspection certificates issued and local inspection payments received.

Corrective Action: Brand Board is currently upgrading the local ownership inspection program software to develop electronic inspections forms. The program will generate reports listing inspection certificates issued which will then be reconciled with local inspection payments received.