

# State Board of Internal Control

ANNUAL REPORT TO GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

October 8, 2024

# Project Purpose/Summary



To establish and implement a Statewide Internal Control Framework in accordance with COSO Principles



Developed under direction of State Board of Internal Control, established during 2016 Legislative Session, related to Senate Bill 162



Provide reasonable assurance that State Agencies are achieving operational, reporting, and compliance objectives



Identify operational and compliance control areas important to the State, not just financial and anti-fraud controls



# Project Benefits

---

- Provides a consistent Framework
- Creation of policies and procedures
- Provides defined roles and responsibilities
- Improved internal controls
- Process and cost improvement
- More / positive attention from the public
- Adaptive to the State's objectives and changing needs
- Improve Statewide governance
- Ability to measure and enhance performance
- Sustain success
- Effective, efficient
- Measurement of health status of Statewide activities

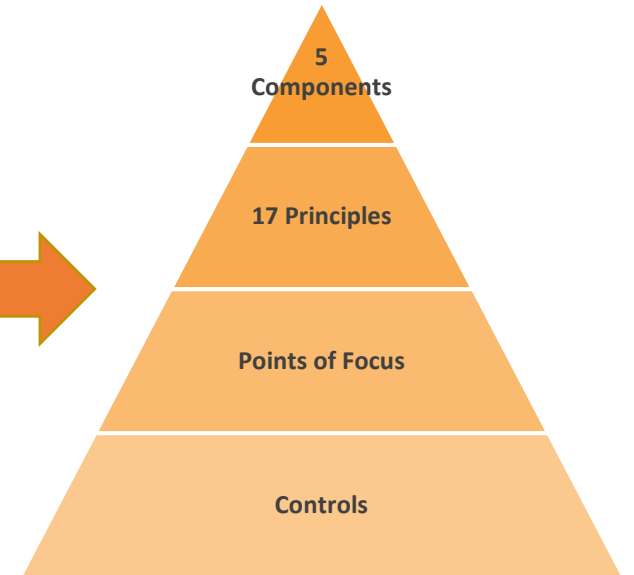
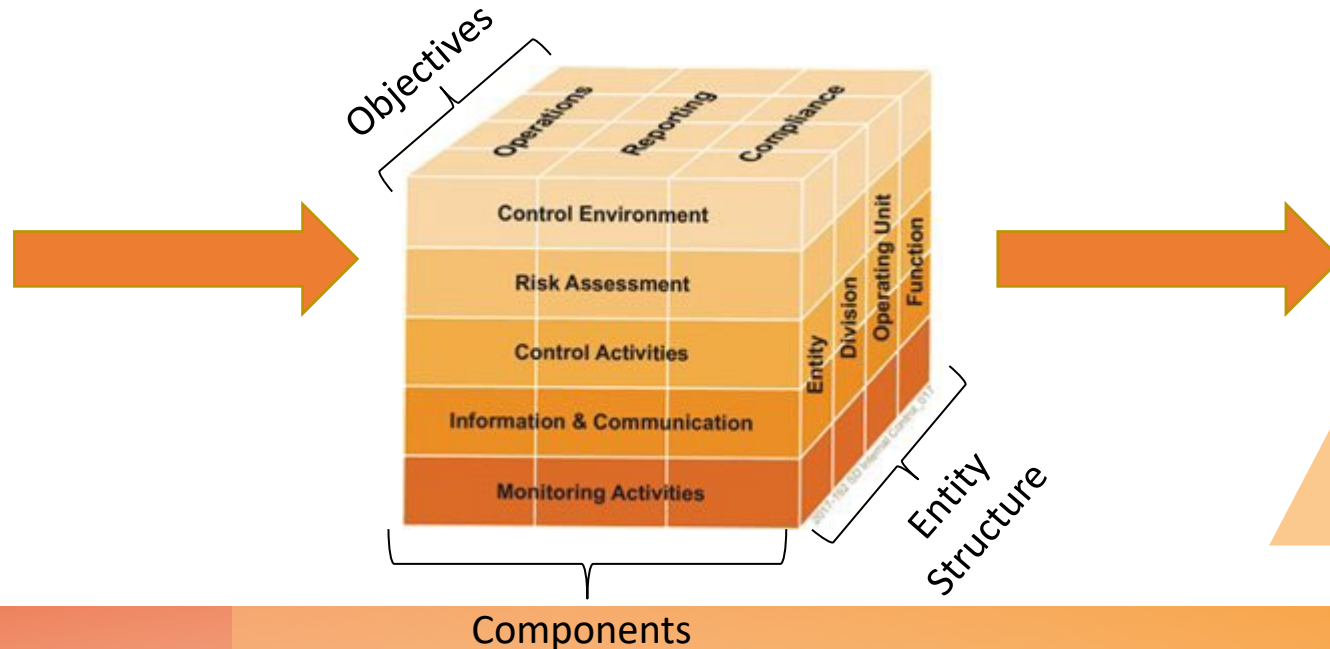
# Internal Control Framework Overview

- COSO is the leading framework used internationally for internal controls, including the basis for the “Standards for Internal Controls in the Federal Government - Greenbook”
- The COSO Framework defines internal control as a process designed to provide “reasonable assurance” regarding achievement of objectives in:
  1. Effectiveness and efficiency of operations
  2. Reliability of financial reporting
  3. Compliance with applicable laws and regulations

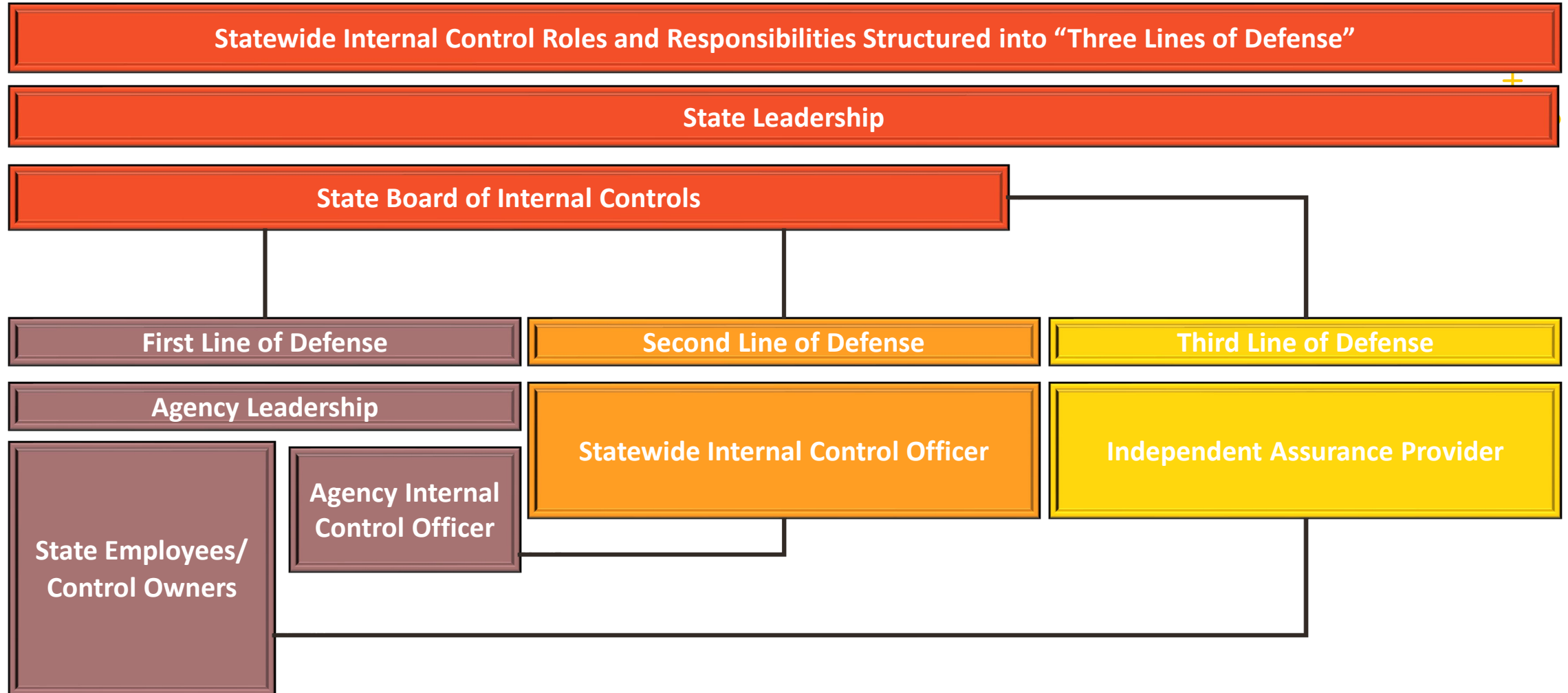
SD Framework



COSO Cube



# Three Lines of Defense



# Roles and Responsibilities

## State Leadership

- Communicate importance of the Framework and commitment to Internal Controls
- Monitor program metrics remediation efforts on audit findings
- Communicate internal control performance and priorities Statewide

## State Board of Internal Control

- Provide oversight of program, align with legislative requirements and long-term sustainability

## Statewide Internal Control Officer

- Perform day-to-day execution of the program
- Support agency risk assessment as needed
- Develop and maintain standard risk assessment guidance

## Agency Leadership

- Communicate importance of Framework and commitment to internal controls
- Develop and approve remediation actions
- Drive agency ownership of Internal Control Program

## Control Owner

- Perform Risk Assessment
- Identify, document, perform controls
- Certify control environment
- Report and remediate deficiencies

## Agency Internal Control Officer

- Support risk assessment and prioritization
- Provide reporting on Agency framework execution and self-assessment results
- Monitor remediation activities and support where necessary

# Framework Implementation Timeline

## Agency ICO/ Agency Leadership Training

- Risk Assessment Fundamentals
- Risk Rating Criteria
- Control Identification Fundamentals
- Program Overview
- Leadership Responsibilities

## Risk Assessment

- Risk Identification Workshops with each division

## Risk Assessment

- Continue Risk Identification

## Risk Assessment

- Risk Identification Review and Finalization

## Risk Assessment

- Risk Prioritization Workshops with each division
- Introduce Risk Rating Criteria

## Control Identification

- Control Identification Workshops with each division
- Identify Control Owners
- ServiceNow GRC Overview
- Review ServiceNow GRC Control Attestation Process

## Wrap-Up/Finalization

- Comprehensive Review of RCM
- Finalize RCM

## Ongoing Responsibilities

- RCM Annual Review
- SBIC Semi-Annual Reporting
- Semi-Annual Control Attestations

Week 1

Week 2

Week 3

Week 4

Week 5

Week 6

Week 7

Ongoing



# Risk Assessment

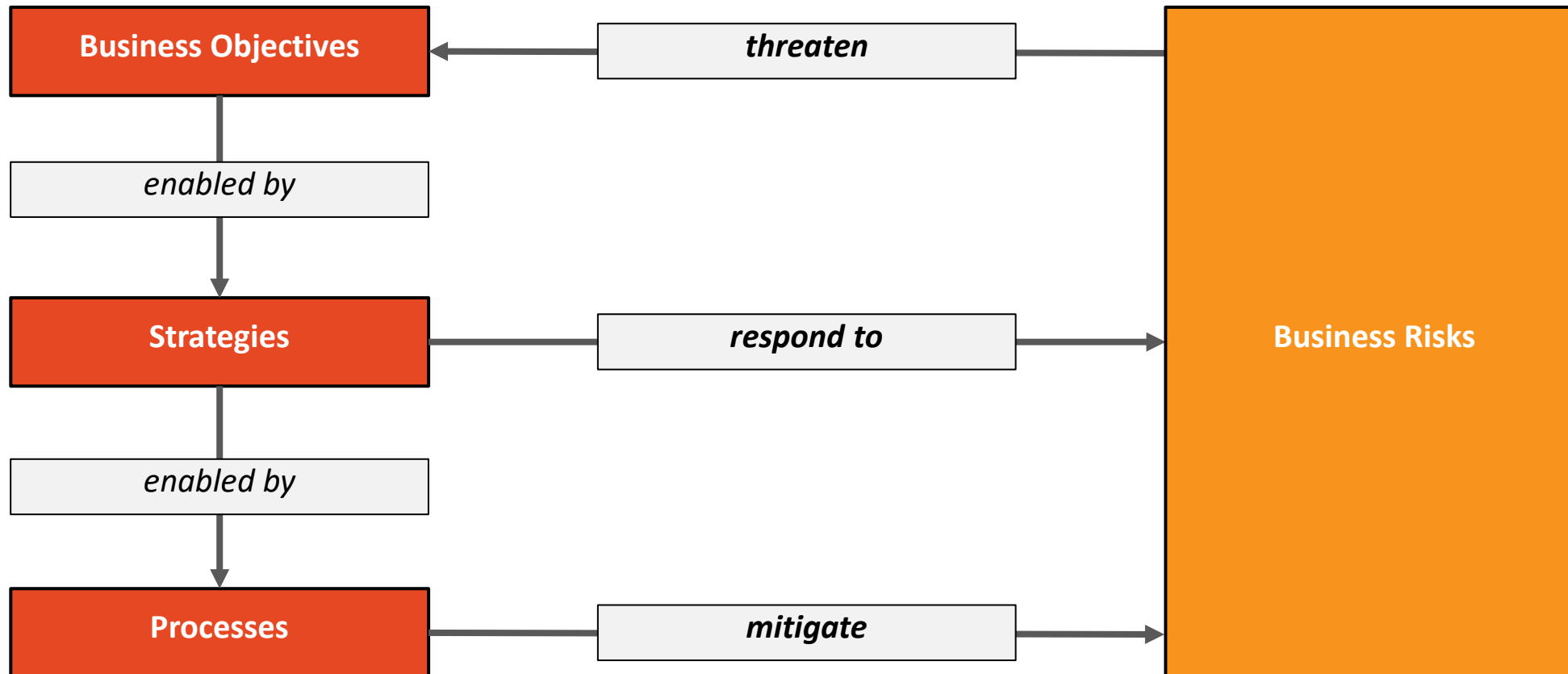
---

- *Optimizing the risk assessment approach to...*
  - Align with department strategic plans and objectives
  - Identify department-wide and program-specific risks
  - Focus on higher risks
- ...see the forest, not just every individual tree.





# Intersection of Objectives and Risks



# Risk Categories



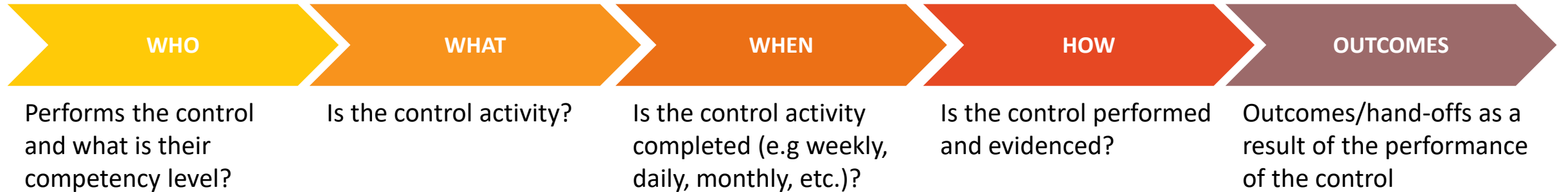
# Risk Prioritization Impact Criteria

Risk Category	Low	Medium	High	Critical
<b>Financial</b>	Minimal short / long term financial impact to the Agency / Program	Short-term impact to the Agency / Program that is handled within current budget allocation, with potential for longer-term impact	Significant, long-term impact to the Agency / Program which goes beyond normal budget allocation	Significant statewide financial impact beyond the funding of the Agency / Program
<b>Operational</b>	Minimal impact to Agency / Program objectives	May cause short-term disruption of key capabilities needed for daily activities to support Agency / Program objectives	May cause long-term disruption of key capabilities needed for daily activities to support Agency / Program objectives	May result in widespread inability to deliver on Agency / Program objectives over a sustained period of time beyond normal contingency plans
<b>Compliance</b>	Minimal scrutiny from oversight bodies with little expectation of fines, penalties or sanctions	May result in elevated scrutiny from oversight bodies with potential for short-term fines, penalties or sanctions	May result in increased scrutiny from oversight bodies with significant fines, penalties or sanctions which could limit the ability to deliver on Agency / Program objectives	May result in heavy scrutiny from oversight bodies with fines, penalties or sanctions that jeopardize the ability to deliver on a significant portion of the Agency / Program objectives
<b>Public Perception</b>	No expectation for contact from the media and/or impact to community perception of the State's service.	Potential for limited stakeholder concern which impacts community perception / confidence of the State's services	Heightened and persistent stakeholder concern with a sustained impact (up to 6 months) in community perception / confidence of the State's services.	Significant stakeholder concern with long-term serious impact (> 6 months) in community perception / confidence of the State's services.
<b>Technology</b>	Minimal impact to technology/system capabilities used in daily operations.	May cause short-term disruption of key technology/system capabilities and/or access needed for daily activities to support Agency / Program objectives	May cause long-term disruption of key technology/system capabilities and/or access needed for daily activities to support Agency / Program objectives	May result in widespread inability to access/utilize system capabilities to achieve Agency / Program objectives over a sustained period of time
<b>Fraud</b>	Minimal impact on financial statements, operations, or criminal/regulatory penalties	May cause short-term or limited impact on financial statements, operations, or criminal/regulatory penalties	May cause long-term or significant impact to financial statements, operations, or criminal/regulatory penalties	May result in widespread or substantial impact to financial statements, operations, or criminal/regulatory penalties

# Risk Prioritization Likelihood Criteria

Likelihood Rating	Likelihood Probability	Likelihood Description
Almost Certain	75-100%	If <b><u>not controlled</u></b> , the risk is almost certain to impact Agency objectives within the next 12-18 months.
Likely	50-75%	If <b><u>not controlled</u></b> , the risk is likely to impact Agency objectives within the next 12-18 months.
Possible	25-50%	If <b><u>not controlled</u></b> , it is possible that the risk could impact Agency objectives within the next 12-18 months.
Unlikely	0-25%	If <b><u>not controlled</u></b> , is unlikely that the risk would impact Agency objectives within the next 12-18 months.

# Components of Strong Controls



- ✓ Documentation of preparer and date
- ✓ Evidence of reviewer and date
- ✓ Documentation of review
  - ✓ Review procedures/comments
  - ✓ Reconciling items
  - ✓ Precisions/threshold
- ✓ Completeness and accuracy of supporting documentation (IPE)

**Evidence should be retained to support the performance of the control.  
No evidence = Control did not occur  
= Control failure**

# Control Characteristics

Control Type	Preventive or Detective?	Frequency	Required Inputs	Supporting Technology
<ul style="list-style-type: none"><li>• What type of compliance objective/risk is this control addressing?</li><li>• Operational</li><li>• Financial</li><li>• Compliance</li><li>• Technology</li><li>• Public Perception</li></ul>	<ul style="list-style-type: none"><li>• <b><i>Preventive activities</i></b> are designed to deter the occurrence of an undesirable event. The development of these controls involves predicting potential problems before they occur and implementing procedures to avoid them.</li><li>• <b><i>Detective activities</i></b> are designed to identify undesirable events that do occur and alert management about what has happened. This enables management to take corrective action promptly.</li></ul>	<ul style="list-style-type: none"><li>• How often is the control executed?<ul style="list-style-type: none"><li>• Daily</li><li>• Weekly</li><li>• Bi-Weekly</li><li>• Monthly</li><li>• Bi-Monthly</li><li>• Quarterly</li><li>• Semi-Annually</li><li>• Annually</li><li>• Ad-Hoc</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Pertinent information needed to complete the control.</li><li>• Document</li><li>• Form</li><li>• Report</li><li>• Spreadsheet</li><li>• Checklist</li><li>• Voucher</li><li>• Invoice</li><li>• Manual</li><li>• Training or certification</li><li>• Program or system</li><li>• Website</li><li>• Data analysis</li></ul>	<ul style="list-style-type: none"><li>• What types of technology are needed to complete the control?</li><li>• Citrix, EPath, Intranet, BIT Servers, LMS</li><li>• Budget System/Accounting System</li><li>• QuickBooks, Microsoft Office, ServiceNow</li><li>• Database</li></ul>



# Control Accountability

## Control Owner

- The person(s) accountable for ensuring the control activity is in place and is operating effectively.
- Has oversight of the control performance



## Control Performer

- The person(s) responsible for executing the control activity.



## Control Accountability

# Control Attestations

## What are attestations?

- Questionnaires to monitor risk and control environment
- Covers all controls / Control Owners
- Estimated time to complete: <5 minutes per Control Owner
- Frequency = semi-annually

## What additional information should be included?

- Are there changes in the Agency/process that would:
- Impact risks (ie. present new ones or remove existing)?
  - Change risk prioritization?
  - Require new control activities?

As needed, training is provided by SWICO or Agency ICO's to those staff who need it.

**Control Activity Description :** As needed, training is provided by SWICO or Agency ICO's to those staff who need it.

**Control Performance Detail :** Training is done using the pre-built PowerPoint material, or other applicable IC documentation.  
Ex. IC Framework, documents on BFM SIC site

[Click Here](#) for more information related to the control you are attesting to.

\* Is the control implemented?


Yes

\* Have you experienced any failures?

Yes

\* Please provide details

\* Please details any remediation steps taken to resolve failures experienced.

Please provide any pertinent documentation 

Additional Comments

Submit

Save

Cancel

# Highlights



## **10 Subrecipient Audit Reports Reviewed**

Reviewed audit findings pertaining to federal award programs administered by state agencies as required by [SDCL 1-56-9](#)



## **Implemented the Internal Control Framework to 4 Agencies**



## **Conducted 151 Training Workshops**



## **Achieved a 99.1% Completion rate on Control Attestations**

# Statewide Internal Control Office

Manages the implementation of the state internal control framework

Reviews, researches, interprets, and advises all state agencies on internal control

Creates an annual work plan and report

Staffs the South Dakota Board of Internal Control

SDCL 1-56

# Subrecipient Audit Reviews

- Reviewed audit findings pertaining to federal award programs administered by state agencies as required by SDCL 1-56-9

▶ Call to Freedom, Inc. (DPS)

▶ Southeastern Electric Cooperative, Inc. (DPS)

▶ South Dakota Health Care Coalition (DOH)

▶ Freeman Regional Health Services (DOH)

▶ Boys & Girls Club of the Northern Plains, Inc. (DOE)

▶ Boys & Girls Club of the Sioux Empire (DOE)

▶ Feeding South Dakota (DOE)

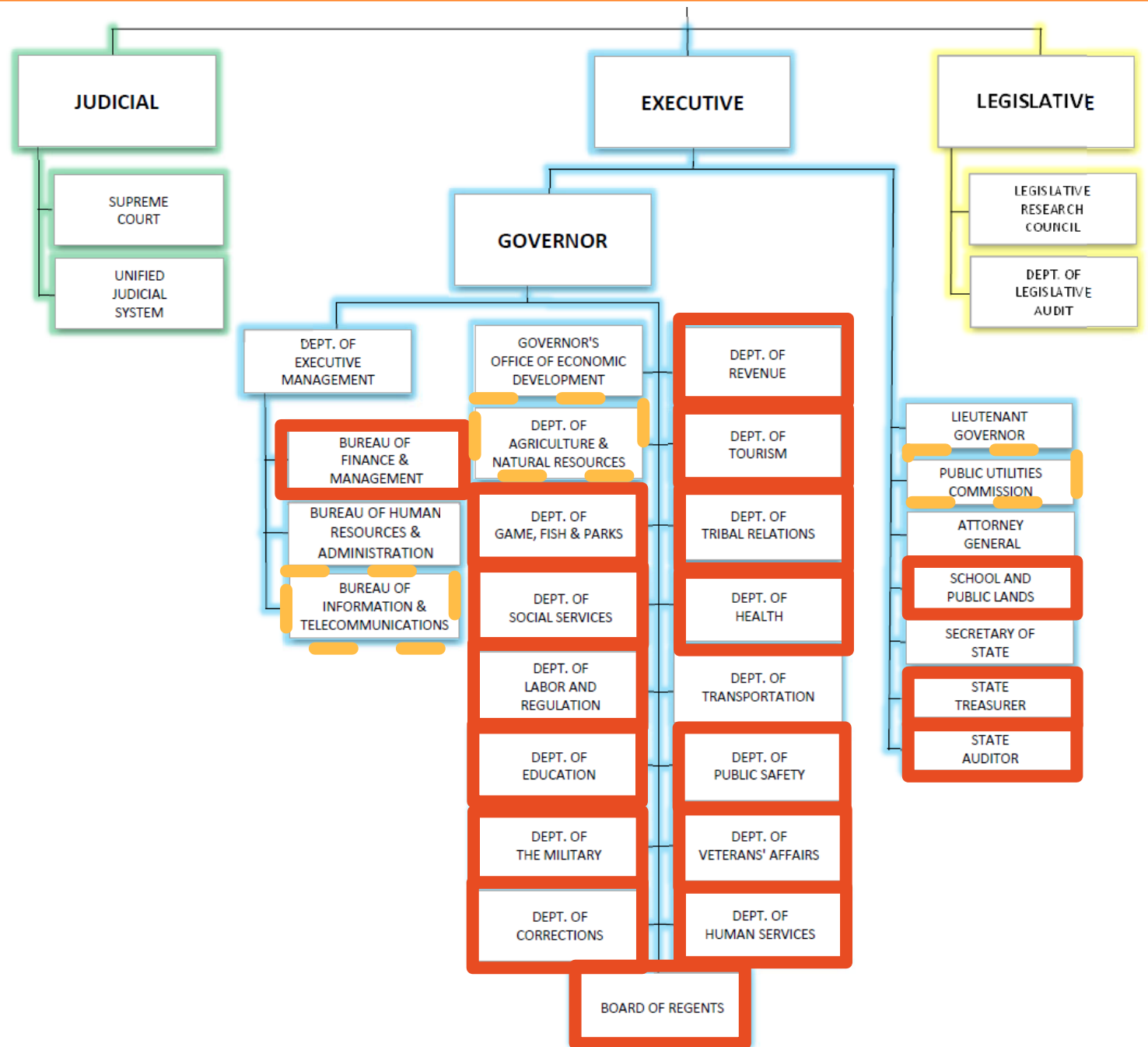
▶ Youth & Family Services, Inc. (DOE)

▶ YMCA of Rapid City, Inc. (DOE)

▶ Children's Home Society of South Dakota (DPS)

# Agency Implementations

- Added Last Fiscal Year:
  - Department of Human Services
  - Board of Regents
  - Department of Labor & Regulation
  - Department of Veterans Affairs
  
- Up Next:
  - Bureau of Information & Telecommunications
  - Public Utilities Commission

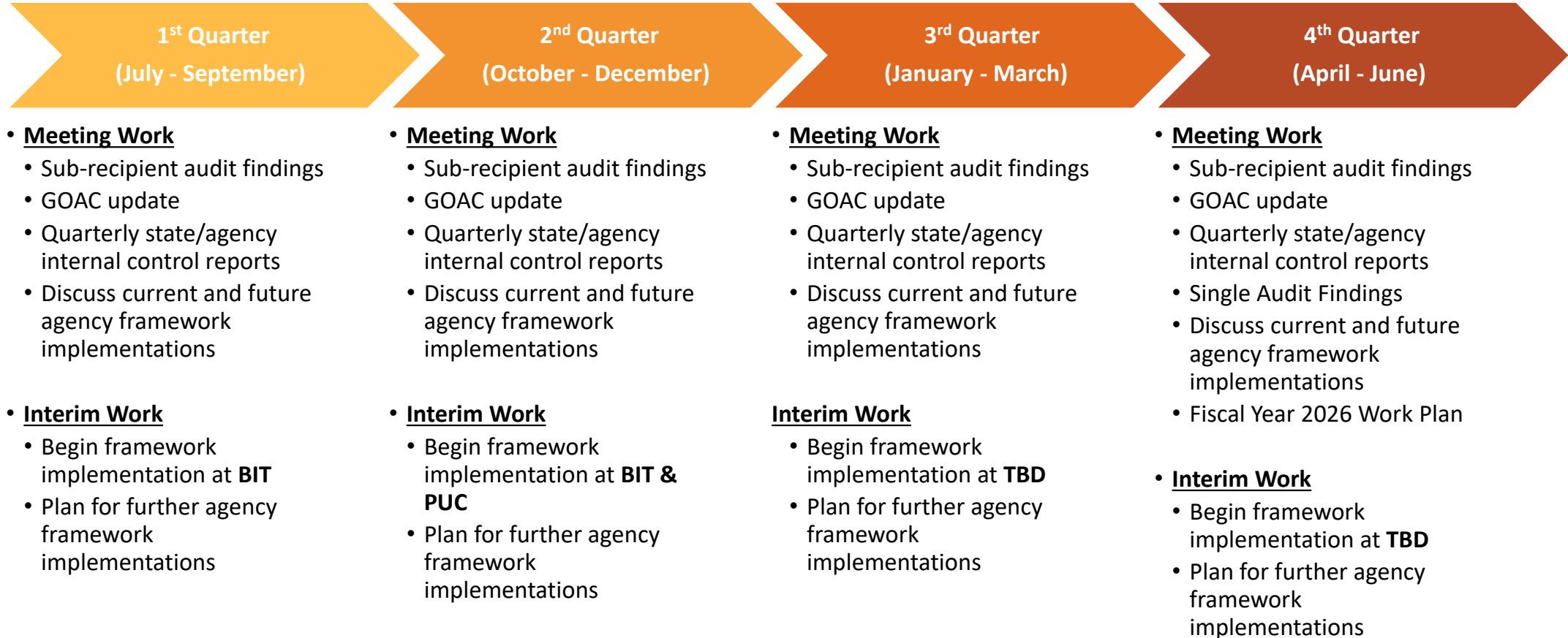




# Statewide Internal Control Metrics Report

Metric	Details	Quarter 1, FY 25		Quarter 4, FY 24		Quarter 3, FY 24		Quarter 2, FY 24	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent
Risk by Type	Public Perception	672	7.8%	657	7.9%	364	8.8%	326	8.6%
	Technology	477	5.6%	466	5.6%	174	4.2%	150	3.9%
	Operational	4671	54.5%	4558	54.6%	2331	56.1%	2151	56.5%
	Compliance	1731	20.2%	1670	20.0%	808	19.4%	738	19.4%
	Financial	913	10.7%	904	10.8%	453	10.9%	426	11.2%
	Fraud	101	1.2%	99	1.2%	28	0.7%	19	0.5%
		<b>8565</b>	<b>100%</b>	<b>8354</b>	<b>100%</b>	<b>4158</b>	<b>100%</b>	<b>3810</b>	<b>100%</b>
Risk by Priority	Low	1602	18.7%	1536	18.4%	1030	24.8%	995	26.1%
	Medium	5287	61.7%	5189	62.1%	2482	59.7%	2249	59.0%
	High	1343	15.7%	1310	15.7%	494	11.9%	425	11.2%
	Critical	333	3.9%	319	3.8%	152	3.7%	141	3.7%
		<b>8565</b>	<b>100%</b>	<b>8354</b>	<b>100%</b>	<b>4158</b>	<b>100%</b>	<b>3810</b>	<b>100%</b>
Control Owner Self-Assessments	Completed On-time	100%		99.9%		98%		100%	
Past Due Remediation Actions		0		0		0		0	
Total Control Issues for Critical and High Risks		Number	Percent	Number	Percent	Number	Percent	Number	Percent
	Public Perception	3	7.5%	2	2.5%	3	9.1%	0	0.0%
	Technology	0	0.0%	14	17.3%	3	9.1%	0	0.0%
	Operational	32	80.0%	35	43.2%	19	57.6%	15	62.5%
	Compliance	3	7.5%	14	17.3%	4	12.1%	9	37.5%
	Financial	2	5.0%	14	17.3%	4	12.1%	0	0.0%
	Fraud	0	0.0%	2	2.5%	0	0.0%	0	0.0%
	<b>40</b>	<b>100%</b>	<b>81</b>	<b>100%</b>	<b>33</b>	<b>100%</b>	<b>24</b>	<b>100%</b>	
Total Open Control Issues		0		0		0		0	
Preventive vs. Detective Controls		72.9% vs. 27.1%		72.7% vs. 27.3%		59.5% vs. 40.5%		56.8% vs. 43.2%	
Controls by Frequency	Ad-Hoc	1127	49.1%	1104	49.2%	523	52.7%	451	51.0%
	Daily	341	14.8%	331	14.7%	105	10.6%	96	10.9%
	Weekly	71	3.1%	68	3.0%	24	2.4%	22	2.5%
	Bi-Weekly	16	0.7%	16	0.7%	6	0.6%	6	0.7%
	Monthly	220	9.6%	216	9.6%	118	11.9%	109	12.3%
	Bi-Monthly	12	0.5%	12	0.5%	6	0.6%	6	0.7%
	Quarterly	62	2.7%	61	2.7%	30	3.0%	28	3.2%
	Semi-Annually	65	2.8%	60	2.7%	20	2.0%	20	2.3%
	Annually	383	16.7%	378	16.8%	161	16.2%	146	16.5%
		<b>2297</b>	<b>100%</b>	<b>2246</b>	<b>100%</b>	<b>993</b>	<b>100%</b>	<b>884</b>	<b>100%</b>

# Fiscal Year 2025 Work Plan





# Our Team

Allysén Kerr

Statewide Internal Control Officer

[allysen.kerr@state.sd.us](mailto:allysen.kerr@state.sd.us)