



DEPARTMENT OF EXECUTIVE MANAGEMENT BUREAU OF FINANCE AND MANAGEMENT

500 East Capitol Ave. ■ Pierre, South Dakota 57501-5007 ■ Voice: (605) 773-3411

October 1, 2024

Members of the Government Operations and Audit Committee:

I am pleased to provide this overview of the State Board of Internal Controls (SBIC). The 2016 Legislature established the SBIC via the passage of [SB162](#), now codified as SDCL Chapter [1-56](#). The SBIC was created in response to the embezzlement case involving Mid Central Educational Cooperative (MCEC). The misconduct came to light after MCEC's administration of the federal Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) grant was terminated.

The primary role of SBIC is to provide comprehensive guidelines for implementing an effective system of internal controls across state government. The SBIC, consisting of seven members, meets every quarter. Information about meetings can be found at:

<http://boardsandcommissions.sd.gov/Meetings.aspx?BoardID=164>

The statutory duties of the SBIC are found in SDCL [1-56-6](#), which requires the board to establish and maintain:

- (1) Guidelines for an effective system of internal control to be implemented by state agencies that is in accordance with internal control standards;
- (2) A code of conduct for use by state agencies;
- (3) A conflict of interest policy for use by state agencies.

After the board was created in 2016, the SBIC worked with BHR to institute and adopt a conflict of interest policy and code of conduct as part of the [State Employee Handbook](#). In addition, the SBIC adopted a code of conduct and conflict of interest policy to be used by state boards and commissions, which can be found at: https://bfm.sd.gov/sbic/docs/Code_of_Conduct_Col_Policy.pdf.

Establishing and maintaining an effective system of internal controls is a long-term commitment for the state. The SBIC has already achieved several key milestones. It appointed Internal Control Officers in each state agency, made grant agreements with subrecipients publicly available on [open.sd.gov](#), and receives non-profit audit reports from the Auditor General related to federal award programs. State agencies responsible for these subrecipients present management decisions to the board to address any audit findings.

SBIC enhanced its internal control system by establishing the Federal Grant Compliance Workgroup, which supports the implementation and maintenance of guidelines aligned with the Uniform Grant Guidance ([2 CFR 200](#)). With the assistance of the workgroup, the SBIC has adopted four standard tools to assist state agencies in maintaining internal controls and ensuring compliance with federal regulations for pass-through grants:

- [Contractor/Subrecipient Relationship Determinations Checklist](#): Helps agencies identify whether a relationship is that of a subrecipient or contractor.

- [Pre-award Risk Assessment Tool](#): Evaluates the risk profile of a subrecipient before entering into a grant agreement, guiding appropriate monitoring during grant administration.
- [Subrecipient Monitoring Guide](#): Provides guidance on creating effective monitoring plans, defining monitoring types, assisting in the selection of monitoring methods, and offering tools and suggestions for oversight.
- [Uniform Subrecipient Agreement Template](#): Standardizes grant agreements to ensure uniformity while allowing flexibility. It includes attestations for conflict-of-interest policies, IRS Form 990 compliance, effective internal controls, and adherence to the federal Single Audit Act.

In 2019, SBIC adopted the [Statewide Internal Control Framework](#) to establish scalable and sustainable internal control systems across state agencies. This framework helps agencies implement flexible and effective controls to boost accountability and achieve their goals. It includes standards for setting up, maintaining, assessing, and reporting on internal controls and aligns with the State's objectives, SBIC's goals, COSO/Green Book Principles, and Senate Bill 162 (SDCL [1-56](#)). The Bureau of Finance and Management (BFM) appointed a State Internal Control Officer to oversee its implementation, perform risk assessments, ensure effective controls, and support SBIC as per SDCL [1-56-5](#).

In recent years, the primary goal of the SBIC is to oversee the implementation of the internal control framework across state government through the work of the State Internal Control Officer. To date, the framework has been successfully applied to nineteen state agencies, with eleven agencies remaining. Currently, one FTE and approximately \$315,000 in contractual service expenses are budgeted to support the statewide internal control functions. Based on the current resources, it will take approximately two and a half years to implement the framework to the remaining agencies.

Given the recent alleged and actual fraudulent activities, our state must continue its commitment to safeguarding assets by tightening the effectiveness of our internal controls. To address this need, we must conduct thorough reviews and enhancements of our current control systems, ensure all state agencies are adhering to the highest standards of accountability, and implement robust measures for ongoing monitoring and risk management. By fostering a culture of transparency and vigilance, we can better protect our state's assets and restore public trust in our financial practices.

I hope this letter provides the Government Operations and Audit Committee with a clear overview of SBIC's actions since its establishment in the 2016 Legislative session. The SBIC is committed to minimizing South Dakota's risk exposure through a long-term commitment to improving our statewide internal control system. If you have any specific questions, please don't hesitate to contact me.

Sincerely,



Jim Terwilliger, Chair
State Board of Internal Control