

# State Board of Internal Control

ANNUAL REPORT TO GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

May 8, 2025

# 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



## Key Benefits & Outcomes

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- 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

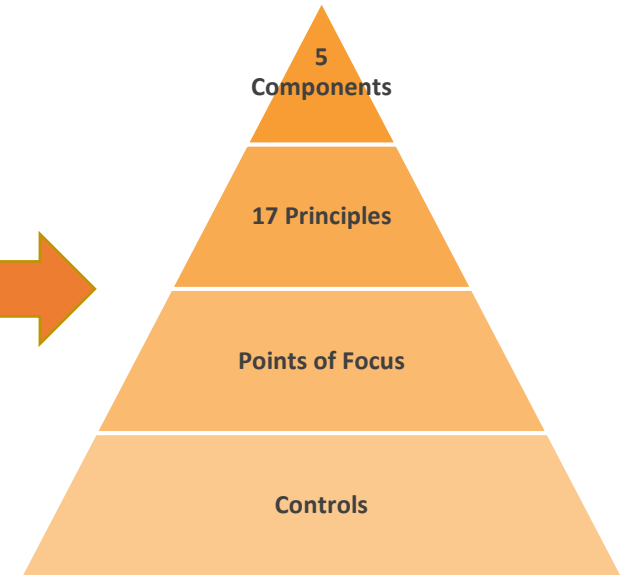
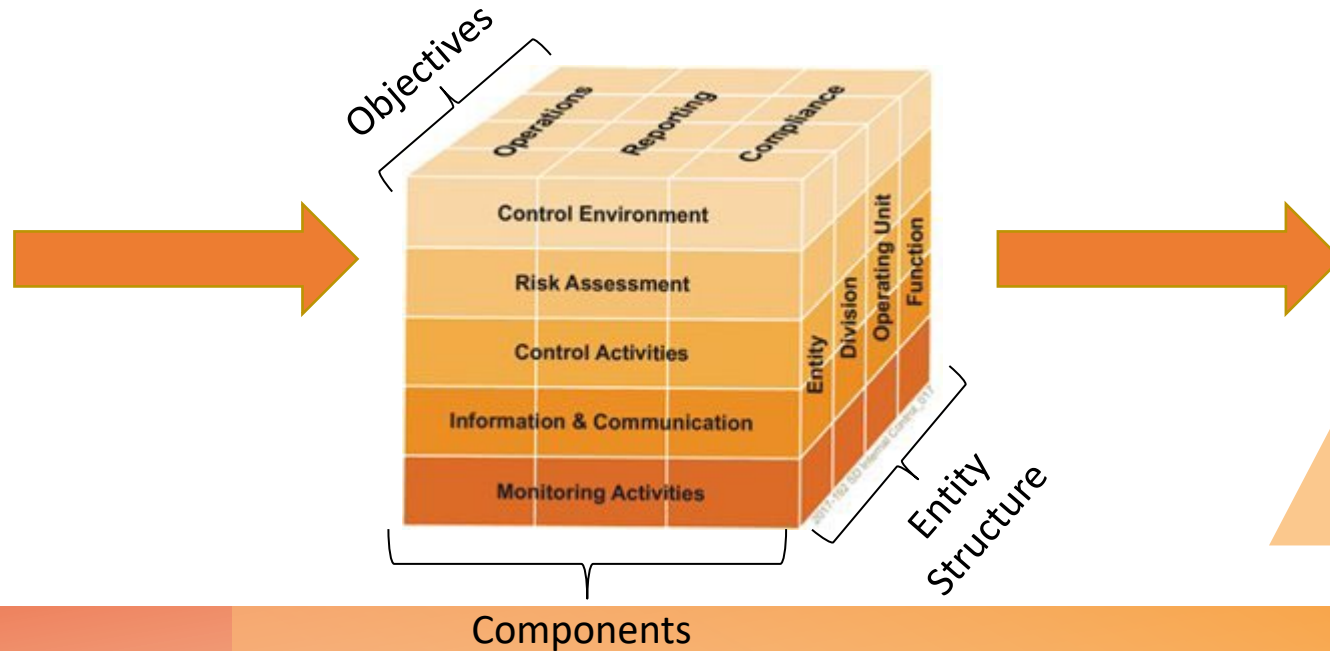
# Internal Control Framework Overview

- 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

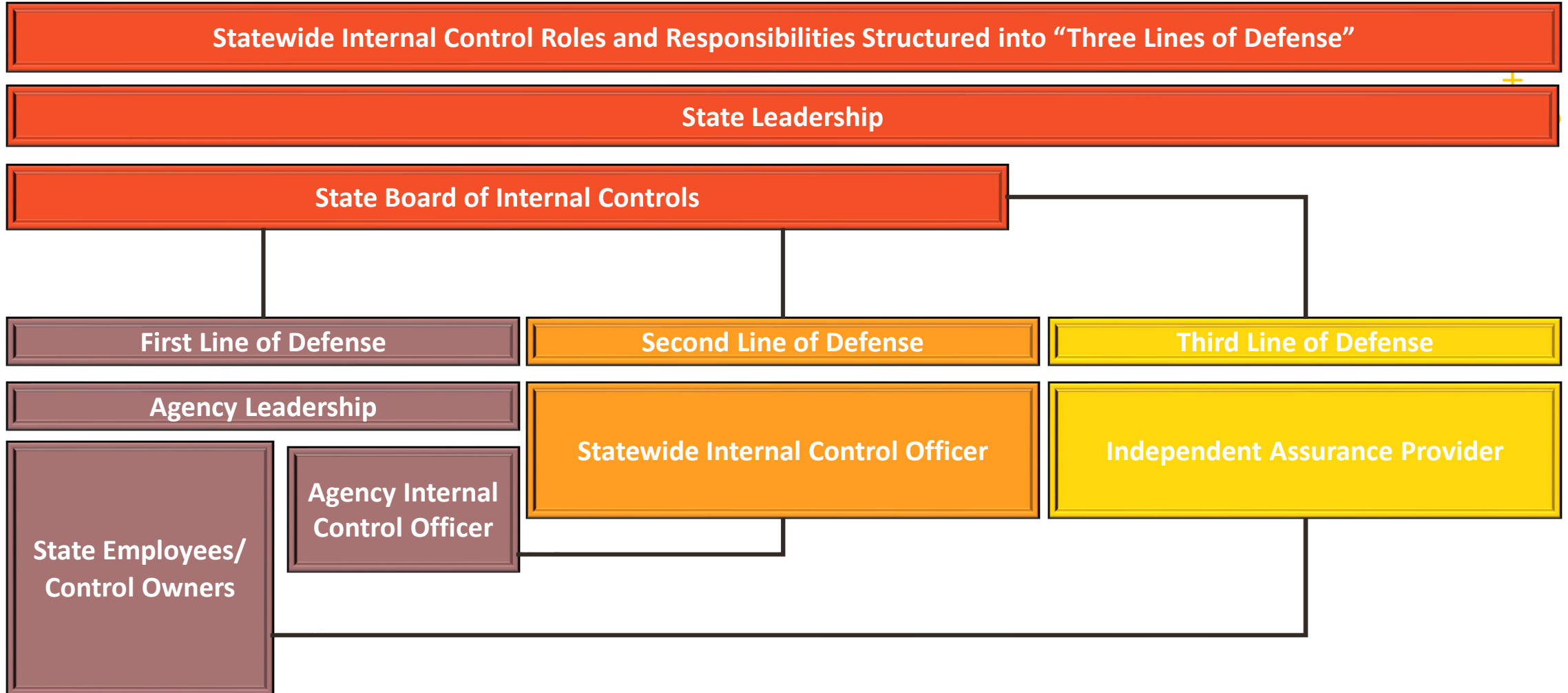
SD Framework



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

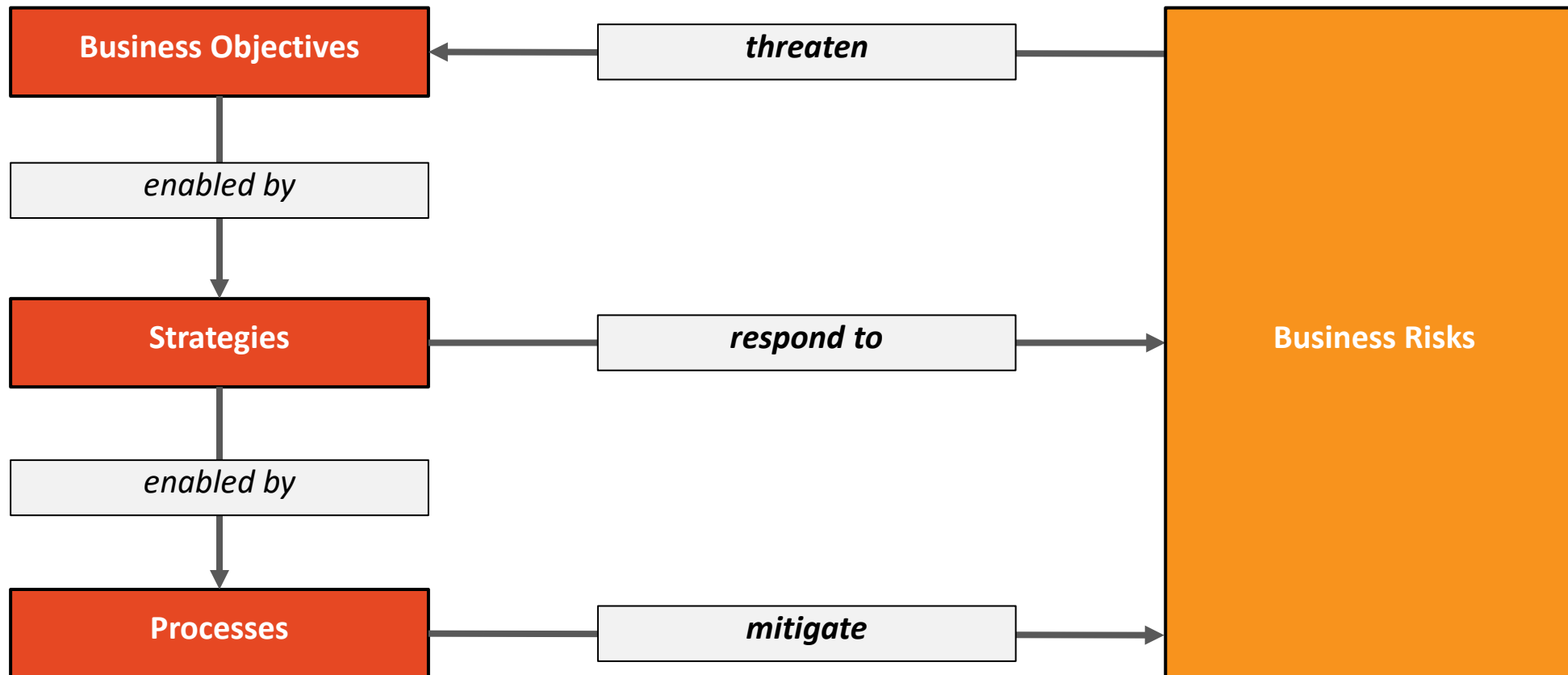
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- *Optimizing the risk assessment approach to...*
  - Align with department strategic plans and objectives
  - Identify department-wide and program-specific risks
  - Focus on higher risks
- ...see the forest, not just every individual tree.

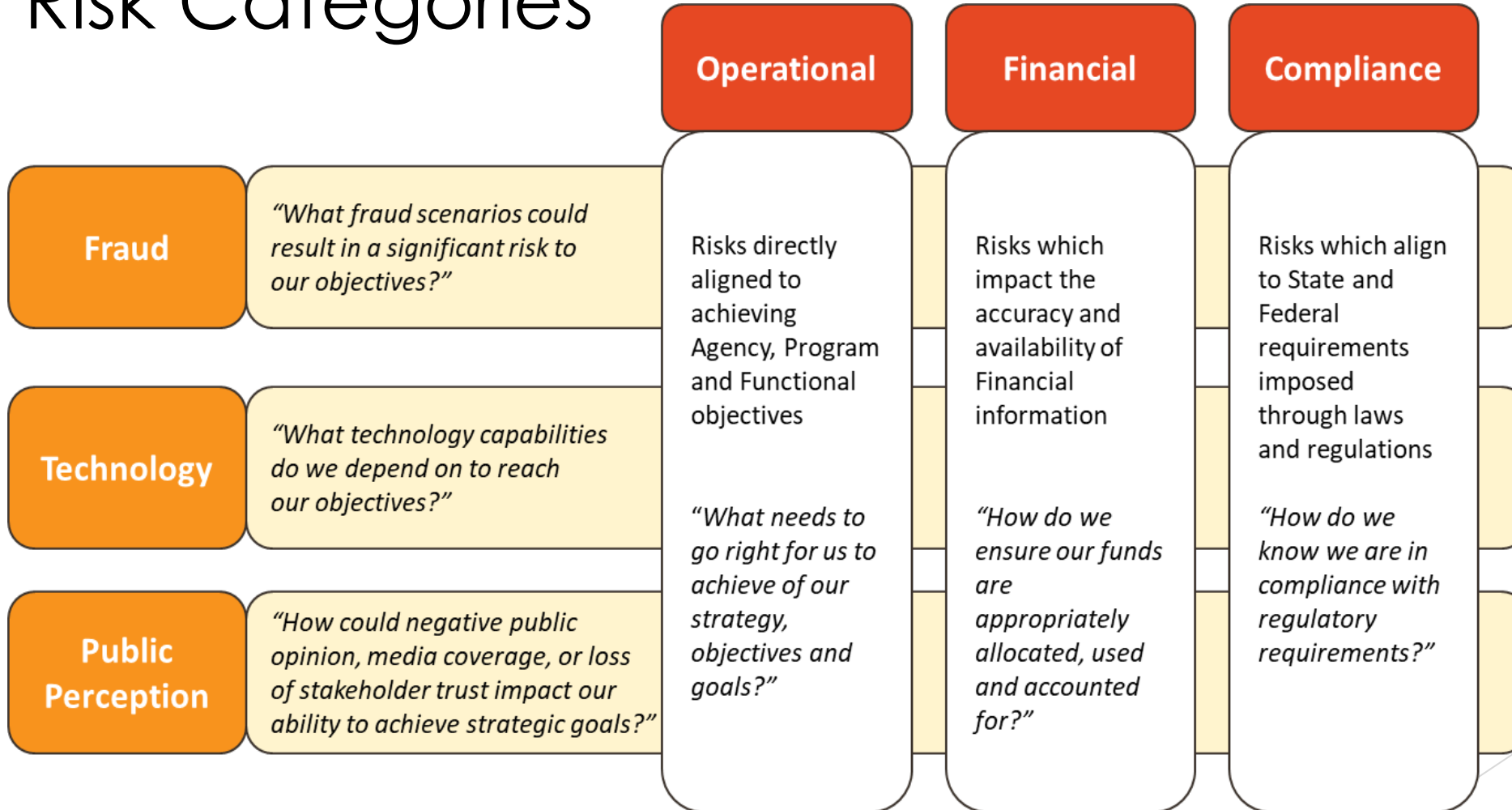




# Intersection of Objectives and Risks



# Risk Categories



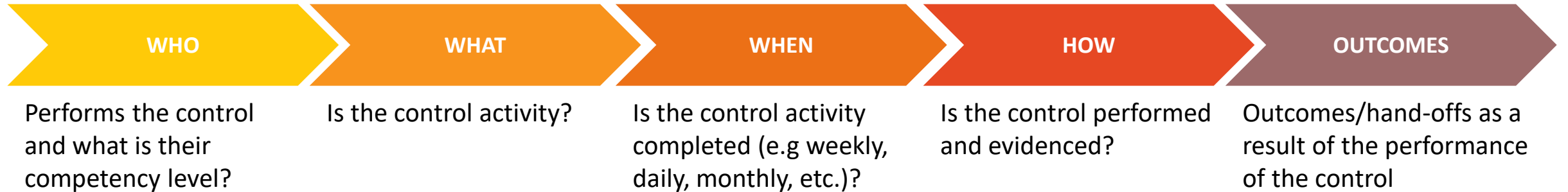
# Risk Prioritization Impact Criteria

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

- What type of compliance objective/risk is this control addressing?
- Operational
- Financial
- Compliance
- Technology
- Public Perception

## Preventive or Detective?

- ***Preventive activities*** 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.
- ***Detective activities*** are designed to identify undesirable events that do occur and alert management about what has happened. This enables management to take corrective action promptly.

## Frequency

- How often is the control executed?
  - Daily
  - Weekly
  - Bi-Weekly
  - Monthly
  - Bi-Monthly
  - Quarterly
  - Semi-Annually
  - Annually
  - Ad-Hoc

## Required Inputs

- Pertinent information needed to complete the control.
- Document
- Form
- Report
- Spreadsheet
- Checklist
- Voucher
- Invoice
- Manual
- Training or certification
- Program or system
- Website
- Data analysis

## Supporting Technology

- What types of technology are needed to complete the control?
- Citrix, EPath, Intranet, BIT Servers, LMS
- Budget System/Accounting System
- QuickBooks, Microsoft Office, ServiceNow
- Database

# 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



## 9 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 3 Agencies with 3 in progress



## Conducted 125 Training Workshops



## Achieved a 99.8% Completion Rate on Control Attestations



## 2025 Session Bill SB 61



## Added to the Internal Control Team

# 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

Sanford (DOH)

Yankton Transit Inc. (DOT)

Community Transit of Watertown-Sisseton, Inc. 2022 (DOT)

Community Transit of Watertown-Sisseton, Inc. 2023(DOT)

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

YMCA of Rapid City, Inc. (DOE)

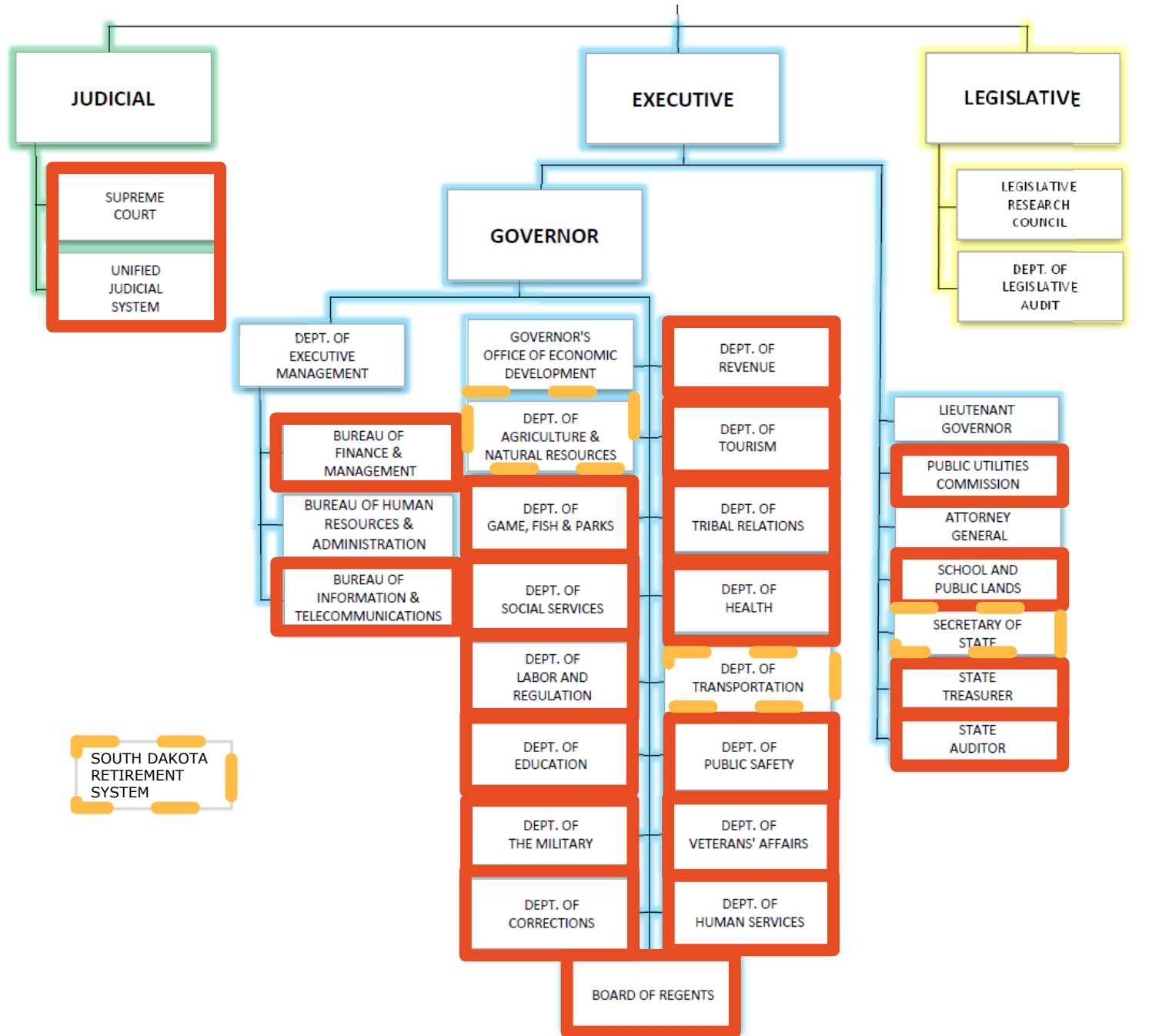
Western South Dakota Community Action, Inc. (DSS)

Early Childhood Connections (DSS)

West Central Electric (DPS)

# Agency Implementations

- Added Last Fiscal Year:
  - Bureau of Information & Telecommunications
  - Public Utilities Commission
  - Unified Judicial System
- In Progress:
  - Department of Agriculture & Natural Resources
  - South Dakota Retirement System
  - Secretary of State
- On Deck:
  - Department of Transportation



# SBIC Metrics Report

Metric	Details	Quarter 3, FY 25		Quarter 2, FY 25		Quarter 1, FY 25	
		Number	Percent	Number	Percent	Number	Percent
Risk by Type	Public Perception	678	7.8%	672	7.8%	672	7.9%
	Technology	479	5.5%	477	5.6%	477	5.6%
	Operational	4731	54.5%	4669	54.5%	4654	54.5%
	Compliance	1768	20.4%	1733	20.2%	1730	20.2%
	Financial	919	10.6%	913	10.7%	913	10.7%
	Fraud	102	1.2%	101	1.2%	101	1.2%
		<b>8677</b>	<b>100%</b>	<b>8565</b>	<b>100%</b>	<b>8547</b>	<b>100%</b>
Risk by Priority	Low	1637	18.9%	1594	18.6%	1594	18.6%
	Medium	5324	61.4%	5265	61.5%	5262	61.6%
	High	1367	15.8%	1358	15.9%	1347	15.8%
	Critical	349	4.0%	348	4.1%	344	4.0%
		<b>8677</b>	<b>100%</b>	<b>8565</b>	<b>100%</b>	<b>8547</b>	<b>100%</b>
Control Owner Self-Assessments	Completed On-time	99.4%		100%		100%	
Past Due Remediation Actions		0		0		0	
High/Critical risks with Control Issues		Number	Percent	Number	Percent	Number	Percent
	Public Perception	3	9.1%	1	3.1%	3	7.5%
	Technology	1	3.0%	5	15.6%	0	0.0%
	Operational	25	75.8%	15	46.9%	32	80.0%
	Compliance	2	6.1%	10	31.3%	3	7.5%
	Financial	2	6.1%	1	3.1%	2	5.0%
	Fraud	0	0.0%	0	0.0%	0	0.0%
	<b>33</b>	<b>100%</b>	<b>32</b>	<b>100%</b>	<b>40</b>	<b>100%</b>	
Total Open Control Issues		0		0		0	
Preventive vs. Detective Controls		72.5% vs. 27.5%		72.5% vs. 27.5%		72.9% vs. 27.1%	
Controls by Frequency	Ad-Hoc	1152	49.3%	1145	49.2%	1126	49.1%
	Daily	352	15.1%	350	15.1%	340	14.8%
	Weekly	70	3.0%	70	3.0%	70	3.1%
	Bi-Weekly	16	0.7%	16	0.7%	15	0.7%
	Monthly	221	9.5%	221	9.5%	219	9.6%
	Bi-Monthly	12	0.5%	12	0.5%	12	0.5%
	Quarterly	63	2.7%	63	2.7%	62	2.7%
	Semi-Annually	65	2.8%	65	2.8%	65	2.8%
	Annually	384	16.4%	383	16.5%	383	16.7%
		<b>2335</b>	<b>100%</b>	<b>2325</b>	<b>100%</b>	<b>2292</b>	<b>100%</b>

# 2025 Legislative Impacts



2025 South Dakota Legislature

**Senate Bill 61**

**ENROLLED**

AN ACT

ENTITLED An Act to modify the authority of the Board of Internal Control.

## Board Composition Update

- Four individuals representing state agencies under the Governor’s jurisdiction, appointed by the Governor (increased from the current three)
- The term of the individual appointed by the Chief Justice of the Supreme Court will expire on July 1, 2025.

## State Agency Responsibilities

- Each state agency must designate an internal control officer.
- Agencies may collaborate and designate a single individual to serve as the internal control officer for multiple agencies under a shared agreement.

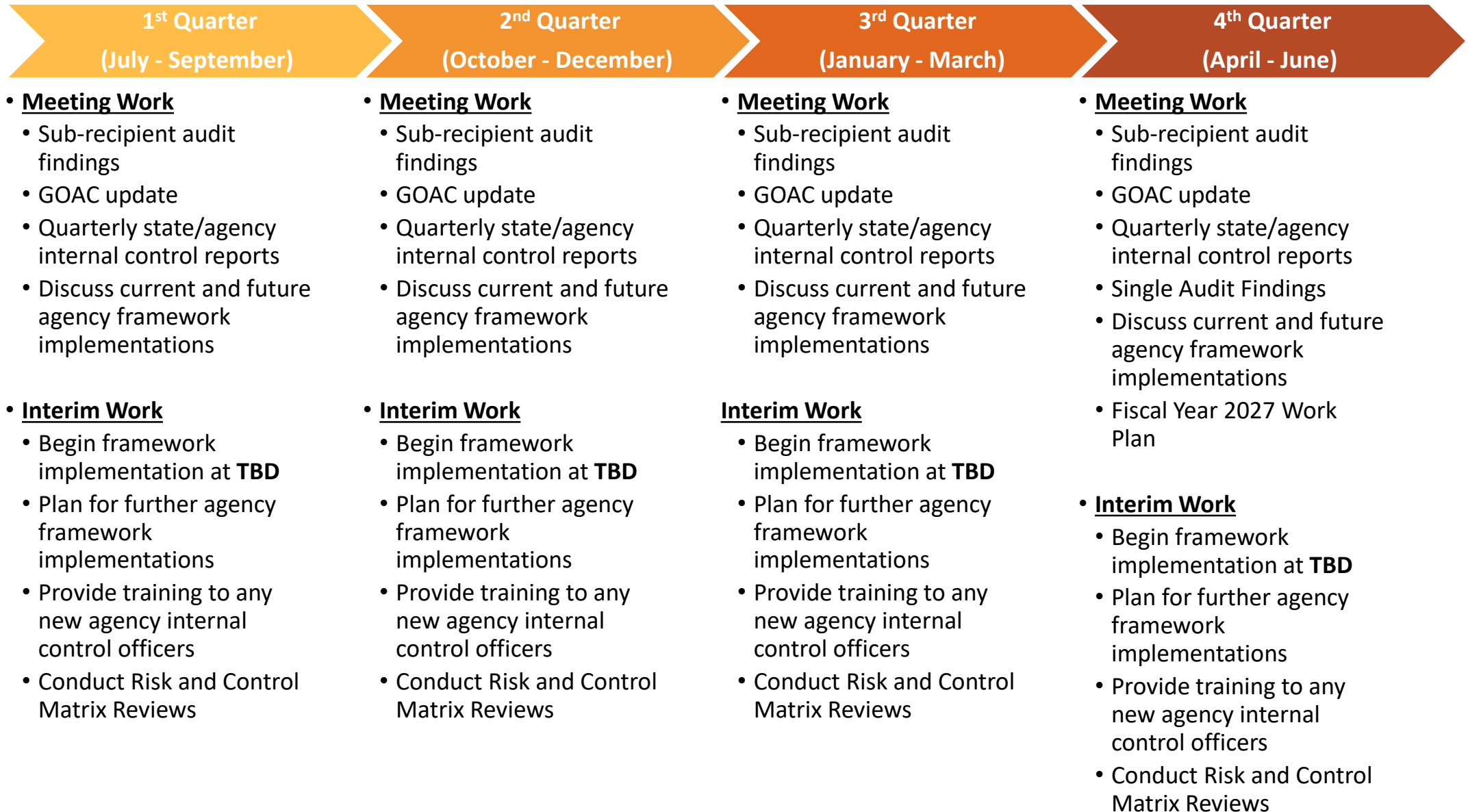
## Annual Risk Assessment Review

- Agencies must conduct an annual review of their documented Risk and Control Matrix to evaluate the adequacy and effectiveness of internal controls and risk mitigation strategies.

## Board Authority and Agency Accountability

- To assess the effectiveness of controls, the Board is granted enhanced authority to access pertinent records for control testing and to propose recommendations for improvement. This expanded authority will empower the Board to conduct a comprehensive evaluation of whether internal controls are functioning as intended, enabling them to offer well-informed, actionable recommendations for enhancement.

# Fiscal Year 2026 Work Plan



# Our Team



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