

State Board of Internal Control (SBIC)

1st Meeting

May 2nd, 2016

1. Call to Order – 9:05
 - a. Roll Call of Members
 - i. Members in attendance
 1. Jason Dilges – Chair – BFM Commissioner
 2. Steve Barnett – State Auditor
 3. Greg Sattizahn - UJS
 4. Monte Kramer - BOR
 5. Laura Schaeffer - DSS
 6. Tami Darnall - DOE
 7. Kari Williams - DOH
 - b. BFM Commissioner Jason Dilges welcomed all to the meeting and started it off with a few background comments.
 - i. This is a board established by the Legislature
 - ii. Starting from the top down with the Governor and Lt. Governor
 - iii. Briefly went over the agenda for today's meeting – this will most likely be the longest meeting for the SBIC
 - iv. Set forth what we are here to do, and how we are to behave
 - v. Need to know the point of contact for each state agency
 - c. Lt. Governor Matt Michels
 - i. Thank you for participating
 - ii. For these presentations, we will be assuming that no one knows much about internal controls
 - iii. Tone at the top is servant leaders - citizens are at the top
 - iv. Want to do the best with taxpayer dollars that we can
 - v. Get the smartest people in a room
 1. Find best practices
 2. Implement them in all agencies
 - vi. We have internal controls in the agencies, but it is not standardized throughout all agencies
 - vii. Talked about the "Standards of Conduct" not just internal control
 1. Give inputs from all people and all agencies to better standardize this
 2. If you see something, say something
 - viii. For nonprofits - You are entrusted with the people's money so you are able to get things tax free, your tax return must be public, auditors give a report that you are following internal controls.
 - ix. We already have an independent auditor
 - x. An elected official does not belong on this board, needs to be a perpetual board

- xi. Needed to be institutionalized in statute
- xii. For the first year, the SBIC will meet monthly and then less frequently afterwards.
- xiii. Important to have government transparency – put contracts and grant agreements on Open SD
 - 1. Have the recipients Form 990 on Open SD or on the recipients' website
- xiv. In order to be awarded a grant, attest to the fact that you have a good internal control process and have procedures, have a standard of conduct, and your Form 990 will be posted. Also, these will be listed in the grants section of Open SD
- xv. Grateful to have the people in this room to lead the State through this process – you are the bright ones as to goals and teachings
- d. BFM Commissioner Dilges
 - i. Created a workgroup on how to address internal control
- e. Auditor General Marty Guindon – DLA
 - i. Thank you to BFM Commissioner Dilges and Lt. Governor Michels
 - ii. Fully supportive the framework of internal controls throughout the State
 - iii. Legislative Audit assesses and reports on the internal control, but only certain ones
 - iv. We have lots of internal controls and find that they are pretty good; however, there are inconsistencies and weaknesses
 - v. Bring out the best practices and deploy throughout
 - vi. Issues
 - 1. Subrecipient monitoring and vetting
 - vii. Review all A-133 reports
 - 1. Receive many questions from CPA firms on classification of vendors as subrecipient vs. contractor
 - viii. Good to have a uniform grant agreement in all agencies
 - ix. The tools can be more complex than they need to be
 - x. At the core, thinking about what can go wrong, and what can we put in place to keep them from happening
 - 1. If they do happen what can we have to detect those and correct them
- f. Ron Wire – Director of Internal Control – BFM
 - i. Thank you BFM Commissioner Dilges
 - ii. Seen a lot of major changes in the State
 - 1. New Accounting System – 1987
 - 2. GASB 34
 - a. Change in the basic financial statement
 - 3. Internal Control Update
 - iii. Committed to all agencies and the SBIC in helping get the internal control set up
 - iv. We will have to update existing controls and implement new ones
- g. BFM Commissioner Dilges

- i. Ron Wire will be the main point of contact for all state agencies on internal control issues and questions
 - h. Introductions
 - i. Everyone in the room introduced themselves and what agency they work for
 - 2. Welcome
 - a. Commissioner Dilges
 - i. So many different people from all different perspectives came to give their thoughts and ideas
 - ii. All people's expertise is needed to make this a success
 - iii. Provide invaluable information while putting together the various policies
 - iv. This can only work when we work together
 - v. Don't be afraid to speak up and share experiences in the world in which you work and live
 - vi. Internal control is a way of thinking, and a way of doing business
 - vii. Internal control processes for everything
 - viii. We need to document these things for people that come after us to follow
 - ix. Please participate in as many ways as you can
3. Presentation – "What is Internal Control" – 9:46
 - a. Keith Senger, BFM Director of Accounting and Financial Reporting
 - i. My office creates the CAFR
 - ii. Surround yourself with people that are smarter than you
 - iii. Not an internal control expert
 - iv. Defining internal control
 - 1. Dynamic and integrated process used by management to achieve results
 - 2. Very broad
 - 3. Part of the organizational structure
 - 4. Operational, Reporting, Compliance Objectives
 - 5. Provide reasonable and not absolute assurance
 - 6. Not just an accounting thing
 - a. It is EVERYTHING and Accounting
 - 7. Everything an entity does to achieve its objectives
 - a. Prevent bad things from happening
 - b. Foster good things to happen
 - v. Two frameworks
 - 1. COSO
 - 2. Green Book
 - 3. 5 Components of internal control
 - a. Control Environment
 - b. Risk Assessment
 - i. Must be ongoing and ever changing
 - ii. All levels of employees need to work together
 - 1. Identify what can go wrong

2. What can we do to prevent this from happening
 3. Document it
 - c. Control Activities
 - i. The actions that are taken to help ensure the achievement of the entity's objectives and mitigate risk
 - ii. Performed at all levels
 - iii. Documented
 - d. Information and Communication
 - i. More important on the quality of information than the quantity.
 - e. Monitoring Activities
 - i. Evaluating whether the other components are in place and working the way management wants it to work
 - ii. An additional part of Control Activities
 - f. All 5 are integrated and interdependent
4. Review of the cubes
 - a. More in-depth than the Components are the principles that further break down those Components
 - i. This is found in both the COSO and Green Book models (17 principles each)
 - b. After principles, each principle is further broken down into points of focus (COSO) and attributes (Green Book).
 5. Difficulty in implementation
 - a. Time consuming
 - b. Costly
 - i. Staffing, systems
 - ii. Must accept some levels of risk
 - iii. Cannot mitigate all risk
 - c. Need to walk through it in baby steps
- vi. Example
 1. Equating internal control to your family
 - a. Family is the business
 - b. Parents are management
 - c. Children are employees
 - i. Going through all the components of internal control in a family setting
 2. As the family ages, the internal control needs to change and adapt to new risks and challenges
 - a. This is the same in business, need to continually change and adapt to new risks
 3. Formalizing the process and institutionalize it.
 - vii. How is the State doing? – Keith's perspective

1. The State has a weak internal control system
2. Weak Control Environment
 - a. Resources are not allocated in a fashion to get it done
 - b. Seen as a burden
3. Risk Assessment is not existent
 - a. This does not mean it is not happening
 - i. Needs to be formalized
 - ii. Sit down with all staff and figure out what can go wrong
 - b. Control Activities Weak
 - i. There are lots of control activities in the State
 1. Many are not properly documented
 2. Some are inefficient
 3. Some are not effective
 4. Need to implement more and different controls especially in the high risk areas
 5. Become more cost effective by eliminating controls in low risk areas
4. Information and Communication - weak
5. Monitoring Activities – weak to nonexistent
 - a. Not checking to ensure that the activities in place are actually being done and that they are effective
- viii. What can the State do?
 1. Need the participation from all of state government
 - a. Support from the top
 - b. Buy-in from the bottom
 - c. Statewide internal control training
 - d. Agency internal control officers
 - e. Documentation of internal control
 - f. Time and work
- ix. What is the role of the SBIC
- x. Closing
- xi. Questions – 10:40
 1. Auditor General Guindon – we as auditors, are not any of those 5 components and cannot be because of independence, only report on the effectiveness of them
 - a. Financial and compliance auditors – do not look at all controls, looking at relatively small section of controls. Do not audit performance
 - b. How many Lt. Governors do you think have read the Uniform Guidance and GASB standards?
 - i. Use this man as a benefit for going forward with this process

- ii. This is setting a great Tone at the Top
 - c. Segregation of duties – if you see this finding, go back to the organization and you cannot accept this even if the organization is small, see what compensatory things they are doing to make up this weakness, utilize board members to help with the segregation
 - 2. Keith Senger – Everything and accounting. Deals with all sorts of risk.
 - 3. BFM Commissioner Dilges – this seems like climbing Everest. I don't know where to start, doing some things well, and some very bad. What is the role of BFM or small workgroups will play in helping and assisting agencies to work through this
 - a. Keith Senger
 - i. Accounting and Financial Reporting Office will be doing lots of learning to help assist in this cannot tell you exactly what to do, but assist in the creation of policies and procedures
 - ii. Take time. We all have other duties, we need to recognize that this is important and make it a priority
 - iii. Start with the Control Environment to make internal control a priority not only in your job, but as a division and department as a whole
 - iv. All agencies should have copies of the COSO or Green Book
 - v. You do not want BFM to develop an internal control system for your department, you want to be involved in that.
 - vi. Agencies will be feeding ideas up to the SBIC rather than from the SBIC down
 - vii. BFM to provide starting templates for agencies to take and make their own
 - 1. All agencies are not equal
 - 4. BFM Commissioner Dilges – Possibility of a workgroup of subrecipients to make forms better from all perspectives. SBIC was created through SB162 and 4 positions were dictated to be represented BFM Commissioner, UJS, BOR, State Auditor, the Governor selected the others because of size and what others have been doing in the means of internal control currently. Give examples of some of their troubles or successes. Example of travel reimbursement through EMFO and going through the process from start to finish and just looking at one specific item. Think of examples of things like this for future meetings to go over.

5. Housekeeping Issues – 11:17

- a. SBIC Work Plan FY17 – Keith Senger (distributed)
 - i. Just a rough draft by BFM, the Board needs to take this and make it theirs
 - ii. Items that SB 162 requires to be addressed
 - 1. Code of Conduct
 - 2. Conflict of Interest
 - 3. Pass-through Entity/Subrecipient Activities
 - iii. Need to have an approved work plan and give that plan to the Governor and GOAC
 - iv. What do the people in attendance want the SBIC to focus on?
- b. BFM Commissioner Dilges
 - i. Agencies around the State are all in different areas in the internal control process. But centrally and together, we can institute several things right now while we are still going through the main part of internal control throughout.
 - 1. Code of Conduct
 - 2. Conflict of Interest
 - 3. Subrecipient Activities
 - ii. Want to have these items in place by the end of the calendar year December 2016
 - iii. Keith Senger will talk about the duties of an internal control officer
- c. Keith Senger
 - i. This is not the decision of BFM or just the Board. It is also the decision of the agencies
 - ii. Keith's list of duties for internal Control Officers
 - 1. Point of Contact for internal control issues
 - 2. Provide info to their agencies from the SBIC
 - 3. Ensure that an internal control system (policies and procedures) is implemented
 - 4. Understand the internal control frameworks
 - 5. Facilitate components of internal control within state government
 - 6. Review, evaluate, improve effectiveness and assess risk
 - 7. Develop and implement an internal control system in their agency
 - 8. Provide training and education
 - 9. Make management policies and guidelines available
 - iii. This person can change as time goes on. Does not need to be just one person on the list.
- d. BFM Commissioner Dilges
 - i. Let us know if people should be added/changed/better suited to be on this list based on their strengths
- e. Rick Vallery
 - i. Difference between state employee doing internal control vs a contractor doing internal control?

1. Keith Senger - belief is that if you are representing yourself as working in a capacity for State you have to be involved in the internal controls even if being paid through a contract and not from the state.
- f. Auditor General Guindon
- i. Subrecipient for federal grants would also apply for the state grants. Have a workgroup that combines people working on both types of grants and contracts. Require a schedule of expenditure of state grants like there is a schedule of expenditures of federal awards.
 1. Keith Senger - Not just look at the federal grants – look at the state grants as well. Not just focusing on the federal dollars that the state spends but actual grants from state dollars.
 2. BFM Commissioner Dilges – will be some best practices to share back and forth between the boards and commissions especially in the smaller agencies. With the segregation of duties specifically. Like what Auditor General Guindon mentioned earlier.
- g. BFM Commissioner Dilges
- i. Using technology and age of transparency to aid in this process
 1. Provide information – the website has been updated a lot over the past couple of years
 2. Gain as much trust from the public as possible by sharing more information
 3. Colin Keeler will come and talk a bit about some of the items that BFM is working toward
- h. Colin Keeler
- i. Section 10 of SB162 grant agreements must be displayed on Open SD
 1. Working toward that right now
 2. Will be done in the same manner as putting the contracts on the web same staff can do this
 3. Accounting system interface to assist with this
 4. Make it as simple as possible
 - ii. Improving the search capabilities
 - iii. Adding fields to designate between grant and contracts
 - iv. Space for a link to the grants rather than the document itself
 - v. Must be done by July 1, 2016
 - vi. Any ideas on this, give ideas to Colin
 - vii. Any high volumes to be loaded, contact Colin for assistance on this as well
- i. BFM Commissioner Dilges and Keith Senger
- i. Colin is the point of contact for all systems items related to SB162
 - ii. Want Open SD to provide more of a holistic view of the State
 - iii. Subrecipient's attestation of compliance with SB162 (distributed)
 1. If they cannot attest to compliance, the State cannot do business with them

2. Want to be in early compliance of SB162.
 3. BFM has created a draft of this attestation for use right now
 - a. Law says that in the grant agreement with a subrecipient there must be an attestation
 4. Not providing proof just saying they have it
 5. This has not been approved by the SBIC
 6. Provide feedback on this form with any best practices
 7. As of now, this is the form that will be used going forward with SB162
 8. Has to be posted as part of the grant agreement on Open SD
6. Overview of Code of Conduct and Conflict of Interest
- a. BFM Commissioner Dilges
 - i. Two big components of the internal control process
 - ii. Looking at this document in both a fiscal perspective but also just as general business practices
 - iii. Two pieces of legislation trying to define conflict of interest
 1. HB1214 in 2016 legislative session
 - iv. Lt. Governor Michels has very good knowledge on Conflict of Interest
 - v. Going to be presenting draft of Code of Conduct and Conflict of interest
 1. Give it out to people to look it over and give feedback on all of this to make it better
 2. Bring any additions changes or deletions back to SBIC in the future
 - b. Lt. Governor Michels
 - i. We all have experience with codes of conduct
 1. Families have them and raised that way
 2. Not going to Drink and Drive
 - a. Like parents saying that we know you are going to be tempted to drink. If you do, we won't be mad or judge, please don't drive. We will come pick you up instead of you driving
 - ii. How do we make that palatable so it is not punitive
 - iii. When someone sees it to say something
 - iv. It is a mission statement
 - v. How we will behave
 - vi. Cannot be too long
 1. Will not be a big long legal document
 - vii. Whether it is legal, illegal, just disclose it.
 1. It is not illegal to have a conflict of interest, you have to disclose it if there is one
 2. How you handle a conflict of interest can be illegal
 - viii. Use government services and personnel for things that are not under State government work is illegal
 - ix. Conflicts of interest for people that have signing authority

- x. Most of the time the only thing wrong with a conflict of interest is not talking about it
 - xi. Reporting mechanism – often falls within human resources
 - xii. Should not be afraid if something happens, this will be our tone
- c. BFM Commissioner Dilges
- i. After lunch will look at the Code of conduct and the conflict of interest. This will be passed by SBIC.
 - 1. This approved document can be tailored to individual agencies.
 - ii. Press likes to say that there are conflicts of interest.
 - 1. If the entity has disclosed that and have already mitigated those conflicts and documented it.
 - 2. There is no story for the news to report. These will be finalized at future meetings.
7. Lunch – 12:02
8. Code of Conduct Policy – 12:23 (distributed)
- a. Keith Senger
 - i. Gave presentation about the Code of Conduct
 - 1. A Code of Conduct and a Code of Ethics are different
 - a. Ethics gives more leeway to employees for judgement making
conduct is more a set of items that are right and wrong
 - 2. Intent of the code is to remove some of the ambiguity for decisions in the course of business
 - 3. Provide clarity so employees know what is expected of them
 - 4. Need to have policies that promote good government and responsible use of taxpayer money.
 - 5. Develop a statewide code of conduct and then take and add items that are specific to your agency
 - b. Dialogue on the Code of Conduct
 - i. BFM Commissioner Dilges – What would you recommend on those examples provided?
 - 1. Keith Senger – Some people will think yes, some will think no. How far do we go, accidentally taking a pen with you and leaving it in your car and grabbing another one from the cabinet at work.
 - a. BFM Commissioner Dilges- we need to set a good example
 - ii. Keith Senger – walkthrough the different sections of the Code of Conduct. Just highlighting the main points the document is hitting on.
 - 1. Conflict of Interest is very brief in this document and references the other policy, it will be more specific at the agency level
 - iii. Board Member Sattizahn - If they are attesting there is a policy...is the expectation that they are swearing that they have one, but the language is that it is enforced. It can be hard for us to go in and decide if they are enforcing it or not

1. Keith Senger – these are good items that need to be discussed as the SBIC. It might not be up to the State to determine if they have one and how good it is, we decide based upon their policy on whether to do business with them or not. If we choose no, they have the option to change their policy and enforce it better to do business with the State again.
2. BFM Commissioner Dilges – are we comfortable doing business with these business? Are we ok with their business practices? Helps identify potential risks. We are not the police to say if they have them or if they are following them. But we wield the power of whether or not to do business with them based on these items
3. Lt. Governor Michels – trust that they attest to it and if an issue comes forward then we work through it. Is the juice worth the squeeze? These attestations will be very good tools
4. Auditor General Guindon – if you force a person to sign a document, they will give a pause if they do not have it
5. Keith Senger – if I am committing fraud, I will have no problem signing a paper saying I have a code of conduct. People lie, there will be fraud, we are trying to mitigate it. If they don't have something, we will be willing to help work through setting up a policy
6. Auditor General Guindon – there will be times that we ask to see the policy. Include that if they are employees, they are required to abide professional codes of conduct such as ones adherent to lawyers and auditors.
7. Keith Senger – talk with SD Investment Council (SDIC) to work with them and their Code of Conduct. CPAs have ethical codes they have to follow. This is general and can include more detailed items.
8. BHR Staff Attorney Chris Houlette – went through the code and compared some items to BHR handbook. Fairly consistent to see if there is anything that was missed
 - iv. BFM Commissioner Dilges – take this document and visit with others in your department or people you represent and get changes and modifications and bring back to the board. Hope to have a finalized document by the second or third SBIC meeting.
 - v. It would be helpful to know the items that are in the rules and laws already right now.
 - vi. Keith Senger - Don't want items in here to conflict with what agencies are doing. This Draft will be out on the SBIC website. Maybe send an email as well. Want input from agencies and what the next steps will be.
9. Conflict of Interest Policy – 12:59 (distributed)
 - a. Keith Senger – gave presentation regarding Conflict of Interest.

- b. BFM Commissioner Dilges – Think of other examples to share at future meetings to help bolster the policy. Disclosure is paramount in all situations to have it in the open that this relationship exists. At future meetings, we will bring forward some examples of concrete conflicts of interest and step through the process of managing the conflicts and what to do going forward in those conflicts. Some state agencies have done a great job of going through this up to the point of what do we do? We have identified it, but what now?
 - c. Lt. Governor Michels – very important to funnel as many examples as possible. The bioscience research area has some really great examples and has been heavily developed. As pointed out earlier by Auditor General Guindon, many occupations do have additional codes to follow such as UJS and the judicial candidates. Asked if SDIC would share their documents as examples.
 - d. Keith Senger – SBIC would not be the keeper or receiver of these disclosures, but they will provide guidance. Each agency would do this based on the policies set by the SBIC. This policy will be high level and each agency will add onto it to and adopt their own policies and procedures.
 - e. Keith Senger – walkthrough the Conflict of Interest. Kept it broad and used “a person acting in any capacity for a state agency”. Some agencies already have a document like this in place, others do not.
 - f. Chris Houlette – Scenario 2 from PowerPoint – existing Conflict of Interest laws that went into place last year might cover some of the areas already. Might want to reference those in the policy as well.
 - g. BFM Commissioner Dilges – We are all bound by certain laws and just unsure of what they are. Put it into practice so we all know our role and responsibilities. Have the policy agree with current laws. Have clear guidance on how to identify, document, and move forward. How can we take those disclosures, and decisions made, and post those to Open SD. To show the public that the state has disclosed those and what we are doing to mitigate those risks. Offer to agencies a few options on what to do.
 - h. Auditor General Guindon – address polices to implement HB1064 and HB1214 – there will be complications implementing these bills and the SBIC will probably have to assist with those implementations. The laws did not talk about timeliness; therefore, the SBIC needs to talk about timeliness.
10. Anything additional from SBIC members?
- a. BFM Commissioner Dilges - Must meet once a month. This is the May meeting; we will be setting up the June meeting soon. Please respond promptly so we can get an appropriately sized venue.
11. Adjourn – 1:31