

State Board of Internal Control (SBIC)  
Capitol Building 4<sup>th</sup> Floor Room 414  
Pierre, SD  
October 12, 2016  
10:00 AM (CST)

Keith Senger, proxy for Chairman Dilges, called the meeting to Order – 10:05 AM

1. Roll Call of Board Members –
  - a. Members in attendance
    - i. Keith Senger, proxy for Jason Dilges- Chair- BFM Commissioner
    - ii. Steve Barnett – State Auditor
    - iii. Monte Kramer – BOR
    - iv. Laura Schaeffer – DSS
    - v. Tami Darnall – DOE
    - vi. Kari Williams – DOH
    - vii. Greg Sattizahn – UJS
  - b. Quorum is present
2. Approval of Agenda
  - a. IT WAS MOVED by Darnall, seconded by Sattizahn to approve the agenda. The motion carried with a unanimous voice vote
3. Approval of Minutes from September 12, 2016 meeting
  - a. IT WAS MOVED by Darnall, seconded by Sattizahn to approve the minutes. The motion carried with a unanimous voice vote
4. Housekeeping Issues
  - a. Senger- update on meeting broadcasting
    - i. All meetings will be broadcast online. The September meeting had technical issues and there is no archived recorded file
5. UGG Workgroup Discussion
  - a. Senger
    - i. BFM formed the Uniform Grant Guidance (UGG) Workgroup with the plan to tackle federal grant compliance issues and bring internal control activities to the Board as a measure to strengthen the State’s internal controls
    - ii. Workgroup has met six times and formed subgroups. Subgroups have developed multiple tools and recommendations for: subrecipient vs contractor determination, subrecipient risk assessment, subrecipient monitoring, grant agreement forms, and notification requirements
    - iii. During the August SBIC meeting, the UGG Workgroup brought forth tools. UGG Workgroup has stalled and is looking for Board guidance
    - iv. The goal is to provide consistency in State government and to provide a tool that meets UGG rules and is compliant
  - b. Darnall
    - i. Tools are a great starting point
    - ii. A couple of issues:
      1. Has not had the chance to use the tool yet. Would like the agencies to have a test run with the tools to figure out any issues and have the agencies report back with suggestions
      2. Wants to know what it means to “adopt” the tool – does this mean agencies have to use it? Is it a starting point?
      3. Would like to be able to use the tool and come back with a better formed discussion
  - c. Kramer
    - i. Agree with Darnall. Issues have not changed since August meeting

- ii. Hesitant with the motion stating “other equally effective tools”. What is considered an effective tool?
  - iii. Planned to meet with BOR to discuss what tools the campuses are using
  - iv. Would rather approve guidelines for what is expected rather than a tool
- d. Williams
  - i. Agree with Darnall and Kramer
  - ii. Would like a list of minimum requirements to meet the federal requirements
- e. Schaeffer
  - i. Would like to have the core list of tools and requirements needed, but would like to have some flexibility
- f. Senger
  - i. Do not believe in a one-size fits all tool. This method was allowing for some flexibility. Numerous different tools could cause issues with noncompliance
  - ii. Subrecipient vs contractor has all requirements listed and how those are being handled
  - iii. UGG Workgroup could bring forth the minimum requirements, but these are already required of state agencies
- g. Williams
  - i. Minimum requirements are a starting point for those agencies that don’t have anything. They can use the tool the Workgroup has brought forth
  - ii. Minimum requirements will meet the needs of agencies already doing the work with their own tools
  - iii. Would like the requirements put in layman’s terms for those agencies that do not understand the federal requirements
  - iv. Would like the minimum requirements put together plus a tool the agency can use
- h. Senger
  - i. This was discussed with the group last month
  - ii. Is there a general consensus on how the Board wants to move forward? Does the Workgroup need to bring forth minimum requirements and a tool to meet those requirements?
  - iii. Still concerned with the risk associated with multiple tools. This could increase audit time – Department of Legislative Audit (DLA) will need to assess the tool for effectiveness. A standardized tool would probably decrease audit time
- i. Kramer
  - i. Would like the minimum requirements identified
  - ii. If there are only 5 tools statewide, feels the Board could manage approving them
  - iii. If there is a federal form required, no brainer it should be used
  - iv. Does not have a problem with the agencies coming to the Board for approval, depending on how many different tools the agencies are using. If using the tool with modifications is ok, can be flexible on the decision
- j. Senger
  - i. Issue becomes a lot grayer when talking about risk assessments
  - ii. A lot of tools are nearly ready to bring forth to SBIC
    - 1. Subrecipient vs contractor tool has a lot of federal guidance requirements. The Workgroup tried to break it down into layman’s terms
    - 2. The federal agencies cannot come to a conclusion on pre-award risk assessment requirements. There are discrepancies between federal agencies. No brainer that a pre-award risk assessment should be done, but what should the assessment look like? Should we do one risk assessment centrally for an entity with multiple grant agreements between state agencies?
- k. Darnall

- i. Part of the risk assessment depends on the type of grant. May have a grant that has the same requirements for years, but then the entity could apply for a new type of grant and the risk could change
- l. Senger
  - i. The tool was specifically focusing on the entity itself (staff on hand, type of accounting, etc)
  - ii. Risk assessments directly affect the type of monitoring to be done on the entity. Higher risk means more monitoring. The risk assessment is a key component in this whole process. We need to continue to do risk assessments as the grant continues; it could lower or raise the initial risk assessment
  - iii. The group could set forth minimum requirements in the risk assessment tool
- m. Sattizahn
  - i. Would like to try and pilot the tool with agencies who have not used it and shed some light on where we go from here
- n. Kramer
  - i. Looking for suggestions from the UGG Workgroup on the minimum requirements and want to know how many tools the agencies are using
- o. Chris Peterson, Department of Agriculture and Game Fish and Parks, Director, Fiscal Officer
  - i. Agriculture and GFP have worked with 7-8 different federal agencies; none of them have provided a tool for contractor vs subrecipient determination. Would see these agencies using the tool the UGG Workgroup created
  - ii. Two of the federal agencies have provided pre-award risk assessment tools. Sees the agencies using all three tools (two provided by the federal government and the Workgroup tool). Federal partners have not necessarily done due diligence to make sure their tools meet compliance or mitigate risk
- p. Kramer
  - i. If the Board adopts a tool, could they say this is the tool to be used unless there is a tool required by a federal agency? Would this cover the agencies?
- q. Peterson
  - i. Yes. Looking for guidance from SBIC where there is no federal guidance
- r. Kramer
  - i. Would be comfortable stating “use this tool unless otherwise required by federal agencies.” Would be ok approving a few different amended tools if necessary
- s. Darnall
  - i. Would agree if the tool was a minimum requirement but could be adjusted for order of questions, format, etc. Would like this to be put in layman’s terms, especially for program staff. Would like uniform language for what the federal requirements mean
- t. Senger
  - i. Asked Emily Ward to discuss risk assessment tool. How did you make the tool meet minimum requirements? Could there be a space left for extra questions for an agency to add?
- u. Emily Ward, DLR
  - i. Reviewed various tools – felt the yes/no answer to the questions was easier to use
  - ii. Not much guidance on what to look at for risk assessment. More guidance on subrecipient monitoring. Tried to look at what would be monitored and based tool off of this
  - iii. Can take a step back and address basic guidelines and minimum requirements
- v. Senger
  - i. Risk assessment tool has groupings of questions (type of business, amount of grant, type of accounting, program complexity, entity risk, large or small grant, grant experience)
  - ii. Almost there with minimum requirements. Should come up with what the State of South Dakota determines the minimum requirements should be since there is not a lot of guidance from the Federal government
- w. Ward

- i. A grantee can be rated differently between state agencies. Depends on the type of grant, history of business, and history of the agency
  - ii. Tool has to be broad enough for the agencies to tailor; Does not mean it should be tailored to always show low risk or be too broad
- x. Senger
  - i. Agree; the entity specific risk should only have small differences
- y. Kramer
  - i. Most of the questions are very objective with clear yes/no; A few questions have a little bit of interpretation
  - ii. Alterations or changes could be done at the bottom
  - iii. Think the tool could work for most agencies
- z. Williams
  - i. DOH has been doing pre-award risk assessments the last 2 years
  - ii. The tool provided by the UGG Workgroup is filled out by the agency. DOH sends their risk assessment to the entity. Would like to be able to give the tool to the entity vs the agency filling it out themselves
- aa. Ward
  - i. Did not want to send out risk assessment to the entity so they could give themselves low risk assessment. Could develop something to send out to the entity instead
- bb. Williams
  - i. Entity will not know their score, so this should not affect their answers
- cc. Ward
  - i. Would the Board like a secondary sheet that could be sent out to the entity instead?
- dd. Senger
  - i. The outgoing tools or questionnaires sent to entities should be consistent
  - ii. Could maybe make this electronic so it could be centralized and put into a database in the future
- ee. Williams
  - i. Would like the dollar amounts or grant specific risks taken out of this tool. This would allow for the entity to be graded one way and the grant another way
- ff. Senger
  - i. There is a difference between the grants and their dollar amounts, but the core things should not change about the entity
- gg. Kramer
  - i. Understands why Williams would send out risk assessment to the entity since some questions the agency would not know
  - ii. Has no issue with the entity knowing their risk and how we are looking at risk. If the entity is high risk, what does this affect?
- hh. Ward
  - i. Depending on the risk of the entity, the federal guidance can require more information
- ii. Kramer
  - i. Can we deny an award based on high risk?
- jj. Senger
  - i. Absolutely, the agency can decide not to do business with the entity
  - ii. Risk assessment ties to monitoring. Higher risk equals more monitoring, lower risk equals less monitoring
  - iii. The ongoing monitoring requirement is another tool the UGG Workgroup plans to bring forward
  - iv. Once it is determined that an entity is a subrecipient, there are a lot of different requirements that all tie together
- kk. Williams
  - i. Ok with using a uniform risk assessment tool

- ii. Like the idea of centralizing so the entity only needs to fill it out once
  - iii. Like the idea of assessing entity risk, then assessing grant specific type risk
  - iv. No issue with tool aside from being able to send out to the entity
- II. Senger
  - i. A lot of the tools are coming from what other states are using, but also from what DOH has been using the past couple of years. Trying to pull from agency expertise
  - ii. Has no problem with modifications or tweaks to tools, just ask agencies to bring those changes to SBIC for review
  - iii. Once all agencies are using the tools, will get better ideas on issues and improvements
  - iv. UGG Workgroup plans to come forward with minimum requirements to comply with Uniform Grant Guidance. Will then come forward with a tool to go along with these minimum requirements
- mm. Auditor General Marty Guindon, DLA
  - i. Allowing use of federal tool in lieu of the State's risk assessment tool only if it incorporates all the minimum requirements South Dakota decides on
  - ii. Want to have state considerations, not just federal requirements. For example, the state debarment list. Is this a deal breaker?
  - iii. Extremely important that the risk assessments are shared. Auditors assess entity risk and then grant specific/program risk. This knowledge should be shared throughout state agencies
  - iv. Agree that the State should not send out different risk assessments to one entity, especially if they ask different or conflicting questions. There is a common core of data elements that are needed in terms of terminology. There will be differences based on the type of grant, but core items should be the same
  - v. One of the questions from CPA firms has been about conflicting questions, or questions that may pertain to a contractor instead of a subrecipient. This can cause the entity confusion
- nn. Senger
  - i. CPA Society commented that they were pleased that the State of South Dakota is trying to move towards standardization
  - ii. Sometimes grant agreements did not have CFDA# and they were unsure where to get the information
  - iii. UGG Workgroup is looking at the grant agreement form for standardization. Not ready to bring it before the Board
  - iv. Wants auditors or entities to know where to find the information when picking up the form. Might be a hurdle, especially with DOE system grants
- 6. Other discussion items
  - a. Kramer
    - i. Would like a follow up on audit findings
  - b. Senger
    - i. Audits will not be done until next June. Will not anticipate a finding until next fiscal year
  - c. Guindon
    - i. As DLA receives the findings, will pass on to the Board
- 7. Items for Next meeting
  - a. Senger
    - i. Suggestion for the next meeting?
    - ii. Hearing no suggestions, motion to adjourn?
- 8. Adjourn – 11:22 AM
  - a. IT WAS MOVED by Kramer, seconded by Sattizahn to adjourn the meeting. The motion carried with a unanimous voice vote