

State Board of Internal Control (SBIC)

Capitol Building 4th Floor Room 414

August 23, 2017

1:32 to 2:02 pm (CST)

1. Roll Call of Board Members

- A. Clark called the meeting to order
- B. Lieutenant Governor Michels on the phone
- C. Terry Miller called the roll. Members present:
 - i. Steve Barnett – State Auditor
 - ii. Tamara Darnall - DOE
 - iii. Monte Kramer - BOR
 - iv. Aaron Olson - UJS
 - v. Laura Schaeffer - DSS
 - vi. Kari Williams - DOH
 - vii. Liza Clark – BFM
 - a. Quorum is present

2. Approval of Agenda

- A. Motion to approve the agenda
 - i. IT WAS MOVED by Darnall, seconded by Kramer to approve the agenda. The motion carried with unanimous voice vote.

3. Approval of Minutes

- A. Motion to approve minutes
 - i. Kramer proposed word change – page 3, Section 8.C.ii, second statement by Clark, change “so I was wondering what the timeline” to “so I was wondering about the timeline.”
 - ii. IT WAS MOVED by Kramer, SECONDED by Barnett to approve the minutes as amended. The motion carried with unanimous voice vote.

4. Housekeeping Issues

- A. Lieutenant Governor Michels is on the phone
- B. Meeting is being broadcast via internet. Go to the State Board of Internal Control page on boardsandcommissions.sd.gov website for the “Listen Live” link
- C. Public can sign up of email notification on the State Board of Internal Control page on boardsandcommissions.sd.gov website

5. Recurring Discussion Items

- A. Sub-recipient Audit Notifications from DLA (SDCL 1-56-9)
 - i. Grand Electric Cooperative Inc.
 - a. Tyler Steen- Recovery and Mitigation Manager from the Office of Emergency Management (OEM) provided background information on the public assistance grant awarded to Grand Electric Cooperative Inc. as a result of a presidential disaster declaration. This grant was a pilot program grant intended to get the money to the grantee upfront to buy materials quickly in order to speed the

- recovery process. The audit found that Grand Electric did not segregate and track inventory that was purchased with federal grant money and their own money. Grand Electric is taking corrective action by beginning the process of segregating the costs out based on work orders and other documentation.
- b. Lieutenant Governor Michels asked if there was a settlement and inventory count.
 - c. Steen responded that all materials used were assigned to a work order by the Coop and could be tracked by work order. After work was complete and the grant closes, EOM audits the work orders and makes recommendations to FEMA.
 - d. Lieutenant Governor Michels asked if the grant closure is sometime this year?
 - e. Steen- That timeline is sometime this year, if there is some excess funds leftover they would likely carry over to the next year.
 - f. Lieutenant Governor Michels - Will Tyler's office will send us a letter once this is complete?
 - g. Clark- Yes that is correct. Once the Management letter is issued OEM will come before SBIC again.
 - h. Kramer had questions for Auditor General Marty Guindon. This finding is related to weakness in internal control of a smaller entity. Do you have any guidance how offices with small staffs should handle this? Is it something that we should just accept that there may be a finding?
 - i. Auditor General Guindon responded by differentiating between these one-time projects grants and an entity that is used to federal grant requirements. We wouldn't expect an entity with the one-time project grant to have an advanced internal control system for federal grants. If this were a sub-recipient that regularly received grant funds as a subrecipient of the State, then the Board and the State should be more concerned and suggest action to be taken.
 - j. Kramer asked if we are only concerned about the federal money as they had other material weakness identified in the audit.
 - k. Auditor General Guindon indicated the other material weaknesses were all related to the entity's internal ability to prepare financial statements and the Schedule of Expenditures of Federal Awards. In small entities it is not uncommon to hire your auditor to prepare the financial statements and particularly the Schedule of Expenditures of Federal Awards as they are not used to preparing that schedule because they don't routinely receive federal awards.
 - l. Lieutenant Governor Michels asked if it is a conflict for the independent auditor to also prepare the financial statements and schedules.
 - m. Auditor General Guindon stated that it is not. Auditors often provide "non-audit" service for audit clients. There are certain non-audit services that do jeopardize auditor independence and others that do not. Auditors are required by auditing standards to look at and evaluate all the non-audit services being provided to an audit client by completing a checklist and evaluating independence. There are certain safeguards that can be implemented to help mitigate independence risk.

B. Follow up on prior Sub-recipient Audits and current status

- i. No information to report at this time.

C. Follow up on GOAC Update on July 25, 2017

- i. Clark discussed her presentation to GOAC on July 25, 2017 and a follow up letter that was sent to the GOAC on August 10, 2017. Her time was cut short at this meeting and BFM will be returning on August 29, 2017. The plan is to walk through what SBIC has accomplished, the FGC workgroup progress, the tools approved, etc.

6. Code of Conduct for Boards and Commissions – update

- A. Ann Holzhauser discussed the work that had been done on the code of conduct. Aaron Arnold put together a letter that was sent to the internal control officers and feedback was received. Work is being done on a second draft with the hope to get it out next week, and that it would be shared with Internal Control Officers and the board and commission counsels with hopes of having the Code of Conduct for Boards and Commissions ready by the next meeting.

7. Federal Grant Compliance Workgroup (UGG Work Group) Tools

- A. Ongoing Risk Assessment - Update
 - i. Terry Miller discussed the work of a subgroup that has met. Currently no draft is ready to be presented to the board. The whole FGC workgroup met and gathered input and ideas and are working on another draft of the form. We hope to have something that will meet the needs for the ongoing risk assessment to present to the board at the next meeting.

8. Other Discussion Items

- A. Clark notified the board that a consultant was chosen and work is being done on a contract. Terry Miller is leaving his position and BFM will be looking to fill the Statewide Internal Control Officer position before we sign that contract.
- B. Keith Senger will again be filing in while the Statewide Internal Control Officer position is vacant.
- C. Things that need to be completed by the Statewide Internal Control :
 - i. Spot checks of State Agencies posting grant agreement on OPEN SD.
 - ii. Continuing to track the Subrecipient audit notifications.
 - iii. Reach out to agencies to make sure employees are being informed about conflict of interest laws and that conflict of interest waiver forms are being used when appropriate.

9. Agenda Items For Next Meeting

- A. No new items discussed

10. Adjourn

- A. IT WAS MOVED by Darnall, seconded by Olson to adjourn. The motion carried with unanimous voice vote.