

**State Board of Internal Control (SBIC)**  
State Capitol Building 4<sup>th</sup> Floor Room 414  
November 5th, 2018  
9:00 am to 10:00 am (CST)

## **1. Roll Call of Board Members**

- A. Clark called the meeting to order
- B. Mark Quasney called the roll. Members present:
  - i. Kellie Beck – DOT
  - ii. Liza Clark – BFM
  - iii. Monte Kramer – BOR
  - iv. Greg Sattizahn – UJS
  - v. Brenda Tidball-Zeltinger – DSS
  - vi. Kari Williams – DOH
    - a. Quorum is present

## **2. Approval of Agenda**

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

## **3. Internal Control Framework Introduction**

- A. Mark Quasney, Statewide Internal Control Officer with the Bureau of Finance and Management, introduced the internal control framework to the Board. The history behind this framework was established by SB 162 in 2016, which outlined its duties. Section 1 of SDCL 1-56-6 states: "Guidelines for an effective system of internal control to be implemented by state agencies that is in accordance with internal control standards." An internal control framework was adopted based on COSO. Current state assessment was reviewed, a steering committee was selected that would help design an internal control framework draft, and pilot implementations would begin at two state agencies. This resulted in a ten-section draft piloted by DOR and BFM. Quasney discussed each section of the framework to assure that the Board was satisfied with its sections. Sections include:
  - i. Section 1 – Introduction to the Framework
    - a. Shows the "COSO Cube's" 5 elements of internal control
    - b. Shows the 8 section Control Environment Framework wheel
  - ii. Section 2 – Roles and Responsibilities
    - a. Three Lines of Defense model (Agency Leadership, Statewide Internal Control Officer, Independent Assurance Provider)
    - b. All Lines of Defense report to the Board
    - c. Kramer asked for examples of independent assurance providers. Quasney answered that Legislative Audit and the federal government would be two examples.
  - iii. Section 3 – Strategy and Governance
    - a. Ownership of the framework is with agency leadership
  - iv. Section 4 – Control Identification
    - a. Occurs in four steps (Risk Identification, Risk Prioritization, Control Identification, Refresh Risk Assessment)
  - v. Section 5 – Monitoring and Testing

- a. Level of control assurance occurs through both self-assessment and external independent testing.
  - vi. Section 6 – Information, Communication, and Reporting
    - a. Controls are in place to enable accomplishment of the objectives.
  - vii. Section 7 – Program Management
    - a. This occurs through the reporting cadence of how agencies report.
  - viii. Section 8 – Tools and Templates
    - a. Risk Impact chart will help agencies assess their level of risk.
    - b. Likelihood of risk chart will help agencies assess the possibility of risk.
    - c. Combination “heat map” chart will help agencies to identify both likelihood of risk and impact of risk.
  - ix. Section 9 – Continuous Improvement
    - a. Key for long-term success of the program, so it is built into everything.
    - b. Agencies should understand their internal control better because of the framework.
    - c. Independent assessment by a third-party consultant will occur every five years for each state agency.
  - x. Section 10 – Tools and Technology Enablement
    - a. Currently reliant on share point sites.
    - b. Technology solution will be necessary in the future.
    - c. Future recommendation in the framework for technology.
- B. The floor was opened for questions.
- i. Sattizahn asked what agencies currently meet the mandatory performance measures outlined in Section 3. Quasney answered that as the framework is implemented, they would get build into the risk and control matrix (Appendix 11). A new template would be provided to the Board at a later date.
  - ii. Tidball-Zeltinger asked if the reporting would include the action that was taken because of the risk. Quasney said that they are trying to guide the agencies in how to properly report.
  - iii. Tidball-Zeltinger asked how the remediation reporting metric would work. Mr. Quasney said that the framework requires a deadline for remediation and would be like a management letter on a current audit.
  - iv. Tidball-Zeltinger asked about the perspective of Board members regarding the scope and breadth of each agency so they understand what the agency’s objectives are. Mr. Quasney said that they would work that into future templates for the Board’s review.
  - v. Beck asked a question about the assistance that BFM or the consultants would provide the agencies due to the size of some agencies. Mr. Quasney said that the pilot implementations were provided adequate assistance, and other agencies would also receive assistance from the PwC and BFM.
  - vi. Tidball-Zeltinger commented that it would be helpful to hear from people who have gone through the pilot implementations, and she appreciated Mr. Quasney outlining the framework for them. Toni Richardson, Director of Administration with the Department of Revenue, said that the pilot implementation was very overwhelming at first, but that Quasney and PwC made the transition successful. She mentioned that the process was iterative, so PwC and Quasney would help make their transition successful

as well. She also mentioned the large-scale risks that have helped identify areas that need more attention. Centralized documentation of this framework allows operations of business to continue at a normal pace.

- vii. Tidball-Zeltinger mentioned the risk assessment, and asked how DOR assessed and addressed compliance issues. Ms. Richardson replied that the overall objectives of divisions within agencies needed to be addressed first before evaluating the issues. Quasney added that he and PwC would identify several risks and gave them a timeline to assess those risks.
  - viii. Kramer asked if anyone was being brought on to lead the project within the agency. Richardson said that an internal control officer was identified within DOR, and internal control points-of-contact were identified within each division. She also stated that an internal controls process already occurs within each agency, but implementing this framework would allow agencies to catch and mitigate risks before they become an issue. Kramer asked if DOR was completely implemented. Ms. Richardson said that they are not, but that they will be soon.
- C. Quasney outlined the next steps, and said that they would look to adopt the framework at the next meeting if no questions are brought forth by the agencies.

#### **4. Other Discussion Items**

- A. Kramer asked how the framework addresses reporting incidents that don't reach the level of an audit write-up. Quasney indicated that the process failures that haven't been addressed don't need to be broadcast, but that the state would want to learn from it and correct it. Everyone involved will need to continue to work towards a way that can be addressed. The SBIC does not need to become a platform to embarrass the agencies, it needs to help improve processes. The Board will decide whether to publicize or not.

#### **5. Agenda Items for Next Meeting**

- A. None.

#### **6. Public Comment**

- A. None.

#### **7. Adjourn**

- A. IT WAS MOVED by Williams, seconded by Tidball-Zeltinger.
- B. The motion carried by unanimous voice vote.