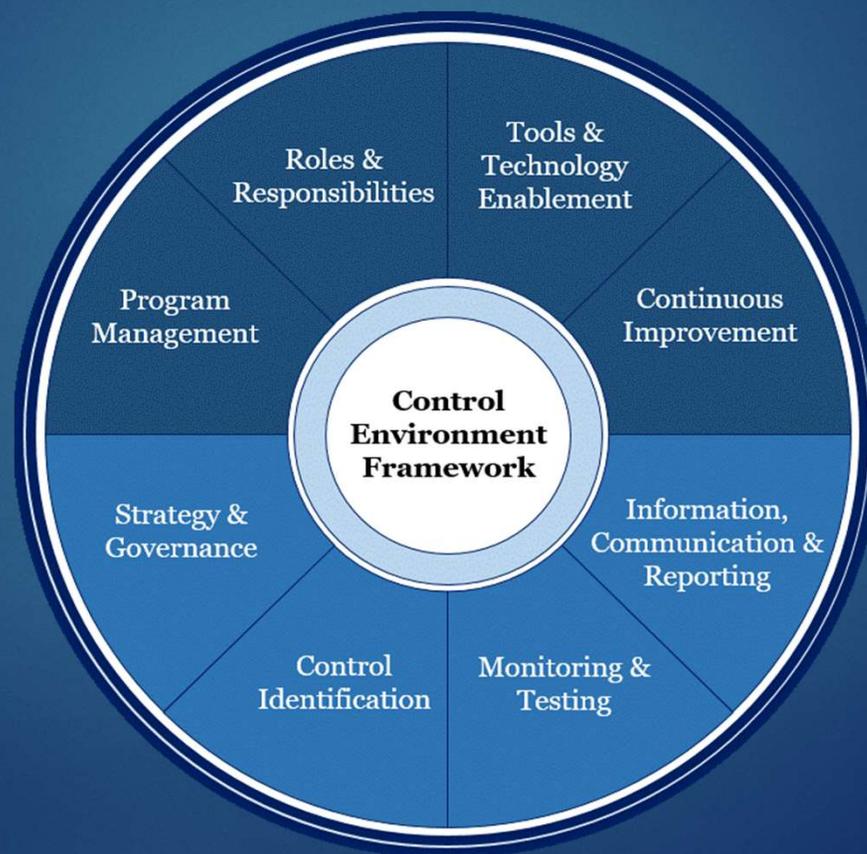# South Dakota Statewide Internal Control Framework

Overview

- Introductions

- History and Drafting Process

- Framework Review

  - Decision Points

- Question and Answer

  - Agency Representatives

  - PwC Representatives

- Next Steps

Introductions

- PwC
  - Stephen Zawoyski - Managing Partner
  - Jon Schulz – Project Manager
  - Aoife Gilligan – Senior Associate
- Agency Representatives
  - Toni Richardson- Department of Revenue
  - BFM

History

"1-56-6.   Duties of board. The board shall establish and maintain:

   (1)   Guidelines for an effective system of internal control to be implemented by state agencies that is in accordance with internal control standards;

   (2)   A code of conduct for use by state agencies excluding the Unified Judicial System; and

   (3)   A conflict of interest policy for use by state agencies excluding the Unified Judicial System.

The Unified Judicial System may implement the code of conduct and conflict of interest policy in accordance with the code of judicial conduct and employee policies utilized within the Unified Judicial System."

COSO – Internal Control Defined

▶ COSO defines internal control as:

"A process, effected by an entity's board of directors, management and other personnel, designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories:

-Effectiveness and efficiency of **operations**
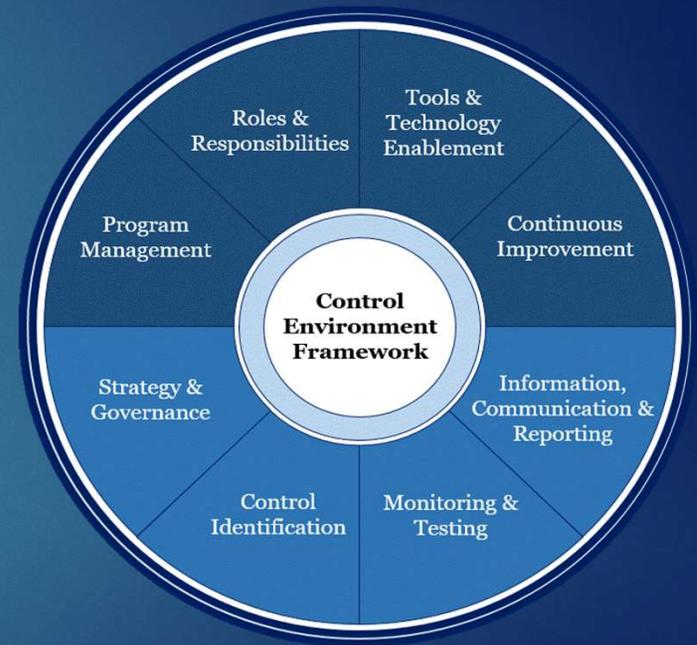
-Reliability of **financial reporting**

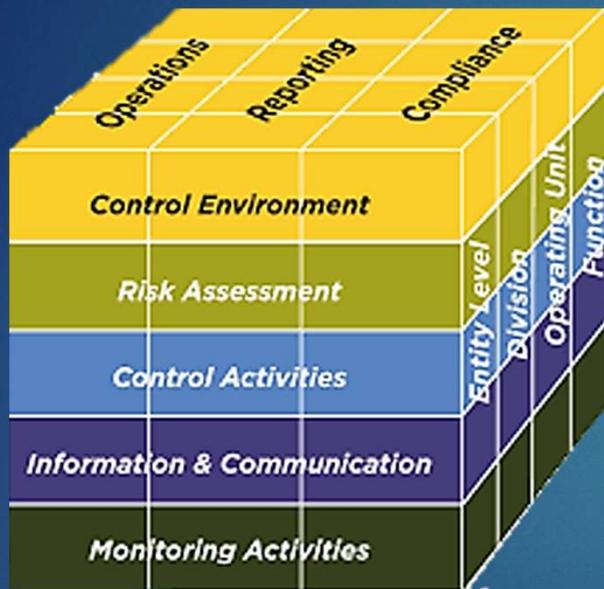-**Compliance** with applicable laws and regulations."

Drafting Process Review

- ▶ Current State Assessment
- ▶ Steering Committee
  - ▶ Design Sessions
- ▶ Draft Framework
- ▶ Pilot Implementations

Section 1 - Introduction to the Framework

Section 2 – Roles and Responsibilities

▶ Section 2 of the framework establishes clear roles and responsibilities at all levels.

Statewide Internal Control Roles and Responsibilities Structured into "Three Lines of Defense"

State Leadership

State Board of Internal Controls

First Line of Defense	Second Line of Defense	Third Line of Defense
Agency Leadership		
State Employees / Control Owners	Agency Internal Control Officer	Statewide Internal Control Officer	Independent Assurance Provider

Section 2 – Roles and Responsibilities

▶ Decision Point 1

  ▶ Does the board believe that the roles and responsibilities are properly aligned for the State of South Dakota and how we operate? (Pages 4-8)

Section 3 – Strategy and Governance

▶ Board drives the importance and ownership of the framework to agency leadership through reporting mechanisms built into the framework.

▶ Decision Point 2

  ▶ Does the Board agree with the mandatory and suggested performance metrics? (Pages 9-10)

▶ Decision Point 3

  ▶ Does the Board think that the communication requirements are properly aligned? (Pages 10-12)

Section 4 – Control Identification

- Control Identification should be continuous, and occurs in 4 steps:
  - Risk Assessment
    - Risk Identification
    - Risk Prioritization
  - Control Identification
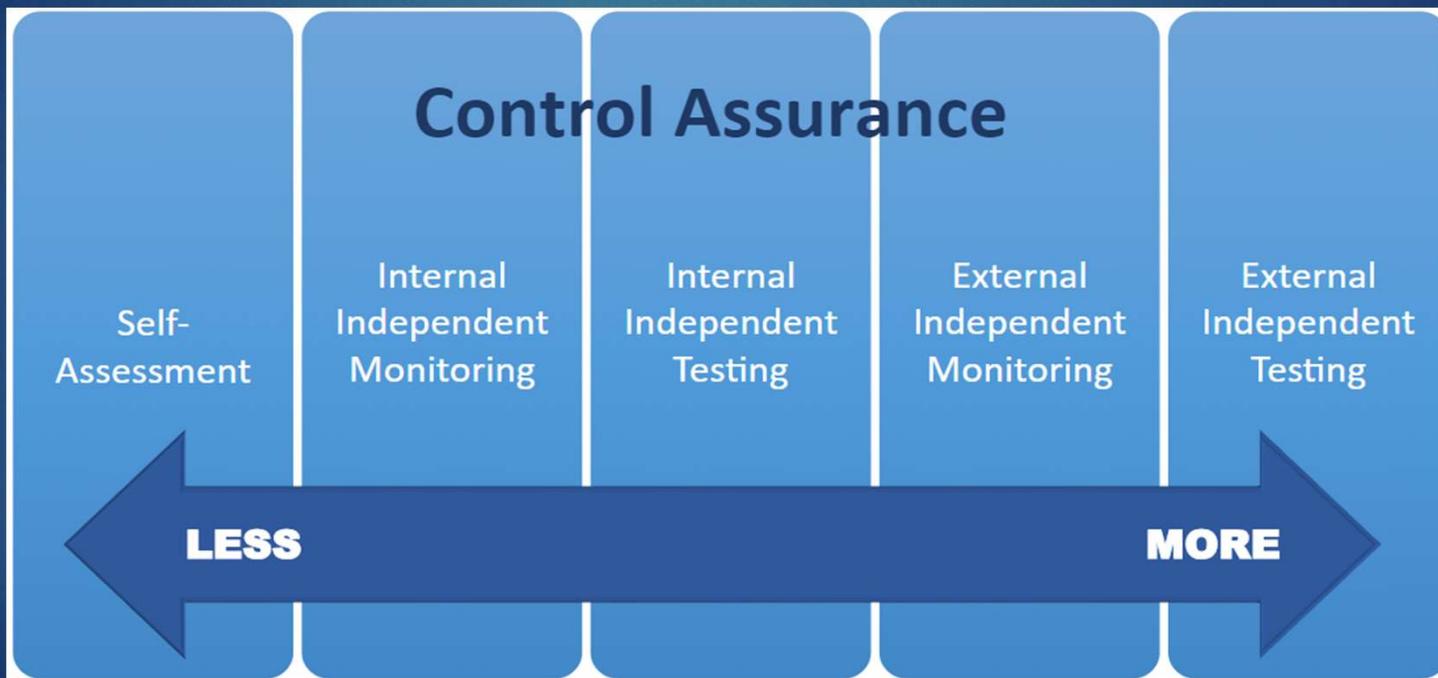 - Refresh Risk Assessment- Iterative Process

Section 4 – Control Identification

- Decision Point 4
  - Is the board satisfied with the level of guidance included for objective setting? (Page 14)

Section 5 – Monitoring and Testing

► Monitoring and Testing occurs regularly throughout the process through both self assessments and independent assurance.

Control Assurance

| Self-Assessment | Internal Independent Monitoring | Internal Independent Testing | External Independent Monitoring | External Independent Testing |

LESS ◄──────────────────────────► MORE

Section 5 – Monitoring and Testing

- Decision Point 5
  - Is the board satisfied with the assurance guidelines and the reporting levels for deviations? (Page 26)
    - Reporting implies approval, do we need to specifically outline approval of assurance deviations? (Page 26)
    - What level of insight does the board want into those critical and high level risks that there is not 3rd party assurance on?

Section 6 – Information, Communication, and Reporting

- ▶ Formalized communication flow from top to bottom and bottom to top.

- ▶ Quality information is important.

- ▶ Metric focused reporting to the Board

Section 7 – Program Management

▶ Program management occurs through the reporting cadence

  ▶ Agency reporting

  ▶ Statewide reporting

▶ Decision Point 6

  ▶ Does the board feel comfortable with the reporting elements that have been outlined to be able to fulfill their responsibilities as the State Board of Internal Control?

Section 8 – Tools and Templates

▶ We will continue to adopt and adapt tools and templates as the program matures.

Risk Category	Low	Medium	High	Critical
Financial	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
Operational	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
Compliance	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
Public Perception	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.

Likelihood Rating	Likelihood Probability	Likelihood Description
Almost Certain	75-100%	If not controlled, the risk is almost certain to impact Agency objectives within the next 18 months
Likely	50-75%	If not controlled, the risk is likely to impact Agency objectives within the next 18 months
Possible	25-50%	If not controlled, it is possible the risk could impact Agency objectives within the next 18 months
Unlikely	0-25%	If not controlled, it is unlikely the risk would impact Agency objectives within the next 18 months

Section 9 – Continuous Improvement

▶ Continuous Improvement is key for the Long Term Success of the program

▶ Decision Point 7

  ▶ Is the Board comfortable with recommending a five year program assessment cycle?

Section 10 – Tools and Technology Enablement

- ▶ Current Technology
- ▶ Future Recommendation

Question and Answer

- Questions for Myself, PwC or Agency Representatives?

Next Steps

- ▶ Intervening Meeting
  - ▶ Receive comments and make changes to draft framework
- ▶ Officially Adopt in December
- ▶ Technology
- ▶ Future Implementations

A Stronger South Dakota