
RESOLUTION NO. 25-15**A RESOLUTION ACKNOWLEDGING COMPLIANCE WITH STATE POLICIES AND CONTRACTOR ELIGIBILITY REQUIREMENTS FOR THE HOUSING INFRASTRUCTURE FINANCING PROGRAM.**

WHEREAS, the City of Box Elder, South Dakota ("City") has applied for financial assistance from South Dakota Housing through the Housing Infrastructure Financing Program; and

WHEREAS, the City has reviewed the State of South Dakota's Internal Control Policies and Procedures attached hereto as "Exhibit A" and the State of South Dakota's Conflict of Interest Policy of June 2018 attached hereto as "Exhibit B".

NOW, THEREFORE, BE IT RESOLVED by the Common Council of the City of Box Elder, that the City acknowledges review and understanding of the State of South Dakota Code of Conduct and Conflict of Interest Policy ("Conflict of Interest Policy") for use by State Authority, Board, Commission and Committee Members and agrees to comply with the Conflict of Interest Policy to the extent applicable by the City.

BE IT FURTHER RESOLVED, that the City will not utilize any contractor listed by the General Services Administration as debarred, suspended or otherwise excluded from doing business with the United State Government on any project funded in any part by proceeds made available through the Housing Infrastructure Financing Program.

BE IT FURTHER RESOLVED, that the City shall inform all General Contractors performing any work on any project funded by proceeds made available through the Housing Infrastructure Financing Program that no subcontractor may be utilized that is listed by the General Services Administration as debarred, suspended or otherwise excluded from doing business with the United States Government.

PASSED, APPROVED AND ADOPTED this 1st day of April, 2025.

Larry M. Larson

Larry Larson, Mayor

ATTEST:

Renee Baker

Renee Baker, Interim Finance Officer



ATTESTATION

I, Chaz Kokesh, the City Clerk of the City of Box Elder, South Dakota, do hereby attest and state the above resolution was published on April 8th, 2025 in the manner required by law and that all procedures required by the State of South Dakota law were complied with. This resolution shall become effective on April 27th, 2025.

Chaz Kokesh

Chaz Kokesh, City Clerk

State of South Dakota

STATEWIDE INTERNAL CONTROL FRAMEWORK

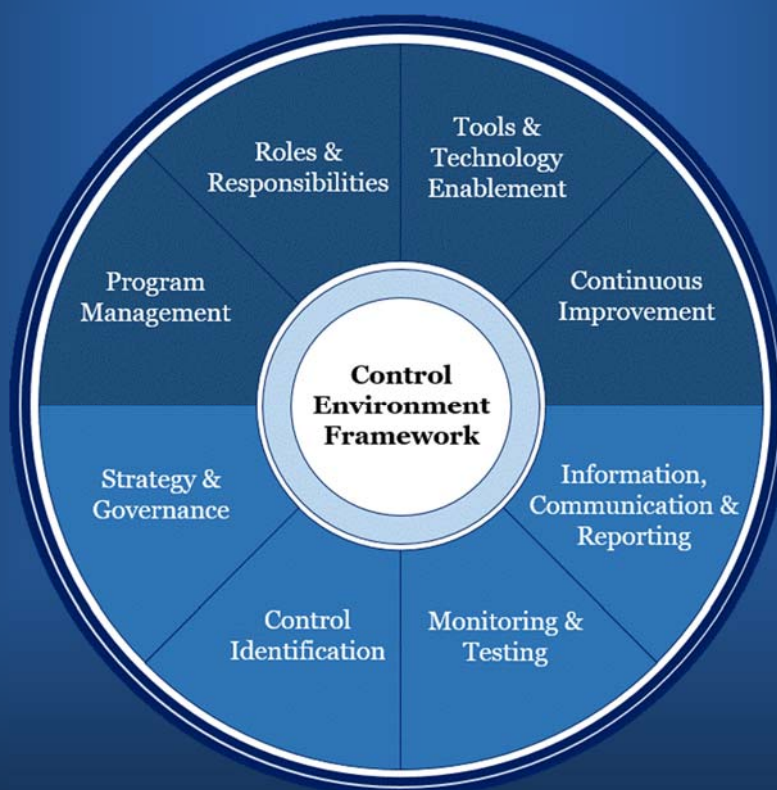


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1.0 Introduction to the Statewide Internal Control Framework

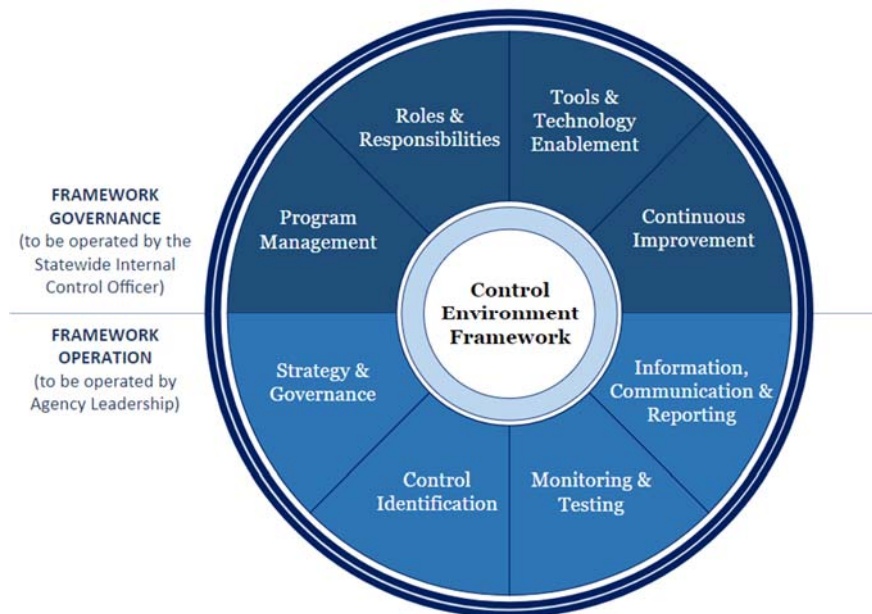
The Statewide Internal Control Framework (the “Framework”) enables the State and its individual Agencies to implement an adaptive, effective internal control system with the intent to continually improve accountability in achieving Agency and State objectives. The Framework consists of a set of Standards which provide guidance for establishing, maintaining, assessing, and reporting effective internal controls across the State.

The Framework was developed in 2018 by the Statewide Internal Control Officer, in collaboration with the Internal Control Framework Steering Committee, comprised of cross-functional, cross-agency representatives to provide oversight and feedback for the development of the Framework and the related Standards. Post initial development, the Framework is maintained by the Statewide Internal Control Officer based on monitoring of the Framework operation, feedback from Agencies and oversight of the State Board of Internal Control.

The Framework provides the approach for effective statewide internal controls and provides the Standards for which internal controls should be managed at the Agency level. In addition to Agency level Standards, the Framework provides clear guidance for operating the Statewide Internal Control Program (the “Program”) which is the responsibility of the Statewide Internal Control Officer, with oversight from the State Board of Internal Control.

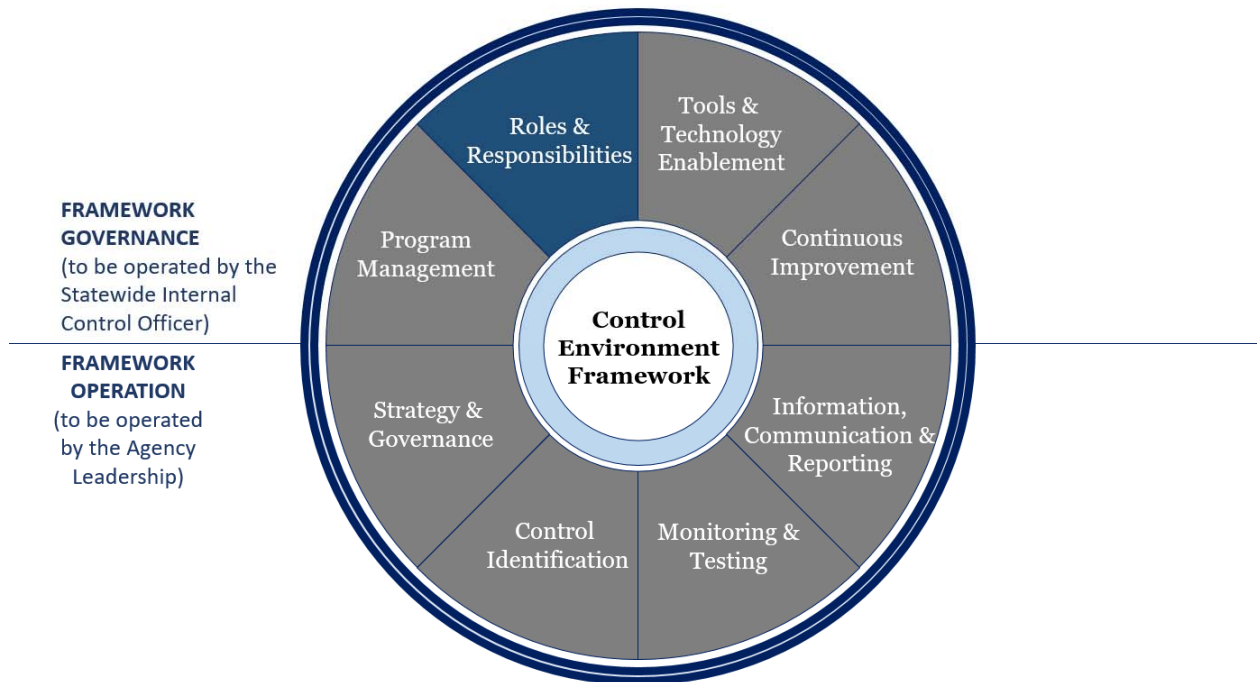
As depicted in the figure below, the four Standards on the top of the Framework are related to Framework Governance and are the responsibility of the Statewide Internal Control Officer. The four Standards on the bottom of the Framework relate to Framework Operation at the Agency level and are the responsibility of Agency Leadership to implement and operate.

The figure below lists the eight (8) Standards of the statewide Framework



The Framework encompasses the Committee of Sponsoring Organizations of the Treadway Commission (COSO) principles-based framework of effective internal control, and provides foundational guidance to enable the State with the capabilities to sustain long-term operations, reporting, and compliance objectives. Refer to **Appendix 1** for alignment of the COSO Principles to the Framework Standards.

2.0 Roles and Responsibilities

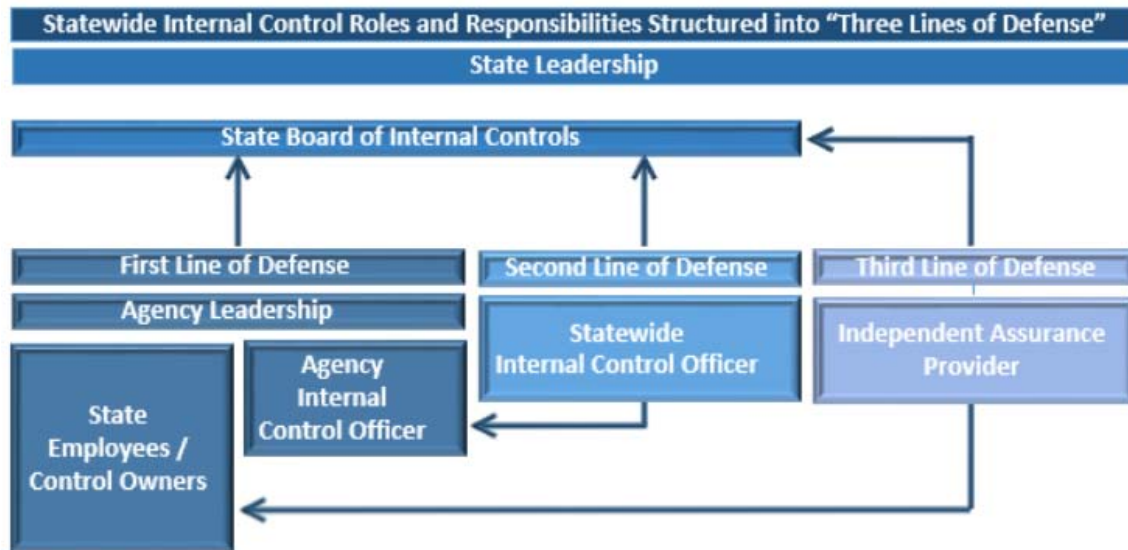


Roles and responsibilities for State’s Internal Control Program are clearly defined within the Framework to support clarity of ownership across all key stakeholder groups. To operate an effective internal control environment, there are many layers of roles and responsibilities which need to interact and rely upon each other across a variety of activities.

The State has aligned the roles and responsibilities of the Internal Control Program to the “Three Lines of Defense”, which is a widely accepted risk management framework commonly used for risk and control programs across complex organizations. The Three Lines of Defense have been adapted and applied to the State based on the State’s operating and governance structures, while maintaining alignment with the industry framework.

The State’s Three Lines of Defense for the Internal Control Program are depicted below, followed by additional details related to the roles and responsibilities for each key stakeholder group. It is important to note the Three Lines of Defense is not meant to be an organizational chart or functional hierarchy, but rather it depicts the interaction of key roles within the Internal Control Program regardless of Agency, functional titles and/or reporting.

2.1 Statewide Internal Control - Three Lines of Defense



2.1.1 State Leadership

Responsible for setting a tone for strong support of the Framework and internal controls, monitoring performance of the internal control environment, and providing additional direction to the State/Agencies to maintain an effective internal control environment. State Leadership is defined as the Governor for the Executive Branch, Executive Board for the Legislative Branch, Chief Justice for the Unified Judicial System, The Board and the Executive Director for the Board of Regents, Attorney General for the Attorney General's Office, and elected leaders of the State's other Constitutional Offices, including: State Treasurer, Auditor, Secretary of State, etc. More specifically, State Leadership responsibilities include:

- Drive the ultimate importance of the internal control program to the Agencies and to the Statewide Internal Control Officer/Agency Internal Control Officers/State Employee, directly
- Provide annual communication to all employees within scope of responsibility in order to emphasize the importance of the internal control program, relay performance results and priorities / metrics
- Monitor agency internal control performance and address needed areas of improvement
- Communicate internal control program performance and forward-looking areas of focus / priority to Agency Leadership on a quarterly frequency
- Ensure internal control messages from State and Agency Leadership do not get diluted as they are communicated to Control Owners / State Employees

2.1.2 State Board of Internal Control

Responsible for providing oversight and guidance related to maintaining the Framework and operating the Internal Control Program across all State Agencies. The Board's objectives are defined in South Dakota Codified Law Chapter 1-56. In addition to the responsibilities outlined in SDCL 1-56, the Framework also defines the following responsibilities for the Board:

- Provide oversight of the Internal Control Program, including applicability of the Framework to State Agencies and monitoring adherence to the Internal Control Program as defined within the Framework
- Approve Statewide internal control work plan and metrics

- Monitor internal control program performance and report summary results to State Leadership
- Monitor internal control messages from State and Agency Leadership to validate the effectiveness of communications, tone and roles related to internal controls
- Promote Agency ownership of the Internal Control Program, including Agency identification and prioritization of risks, along with design and performance of appropriate internal controls
- Maintain a thorough understanding of Agency objectives, related risks, stakeholder expectations and internal controls to provide an appropriate level of oversight, while acknowledging ultimate responsibility for these activities belongs to Agency Leadership
- Provide oversight of significant risks and controls issues impacting the State, including effectiveness of Agency action plans to address identified risks and issues

2.1.3 First Line of Defense – Agency Leadership

Ultimate responsibility for the implementation and operation of the Internal Control Program at the Agency level. Responsible for setting the tone within the Agency, monitoring internal control performance and addressing any internal control issues. Agency Leadership role includes:

- Be the primary owner of the Agency’s internal control environment
- Maintain an understanding of the Framework and how to apply it at the Agency level
- Establish and maintain an effective internal control environment
- Promote the role of internal controls within the Agency
- Develop internal control goals/objectives, consistent with Statewide internal control priorities
- Assign Agency Internal Control Officer(s) to meet internal control objectives
- Ensure internal control competence for Agency employees responsible for internal control program activities (e.g., Control Owners, etc.), which includes monitoring adherence to internal control training requirements for Agency employees
- Enforce accountability, including defined accountability measures and monitor consistent accountability across the Agency
- Set Agency strategy / objectives to support risk assessment and internal control identification
- Report internal control performance and priorities to all Agency employees, at least annually
- Communicate Whistleblower policy, at least annually
- Support accurate and thorough internal control reporting to the Board of Internal Control
- Monitor Agency internal control issues, including review and approval of remediation actions for significant Agency internal control deviations

2.1.4 First Line of Defense – Agency Internal Control Officer

Serve as an expert with regard to the Framework and the State’s Internal Control Program to support Agency level implementation and operation of internal controls, including knowledge of the Framework standards and supporting tools. In addition, perform monitoring of the Internal Control Program within the Agency to support Agency and Statewide reporting. The Agency Internal Control Officer(s) will be designated by Agency Leadership based upon the specific needs of their Agency. Responsibilities include:

- Maintain expertise of the Framework and the ability to apply the Framework across their assigned Agency
- Provide Internal Control Program training to Agency personnel
- Facilitate / Support Agency level risk assessment
- Provide Internal Control Program reporting based on actual results of the Program at the Agency level and the Internal Control Officer’s objective viewpoint with regards to the effectiveness of the Program
- Review reported internal control issues and remediation plans to validate effective risk management

- Consult Agency Employees / Control Owners on changes to the internal control environment (e.g., changes in risk identification / prioritization, controls, etc.)
- Maintain connectivity and knowledge sharing with other Agency Internal Control Officers and the Statewide Internal Control Officer

2.1.5 First Line of Defense – State Employees / Control Owners

Execute day-to-day Internal Control Program activities at the Agency level. These responsibilities will be assigned to various personnel within each Agency based on the specific needs of the Agency and as determined by Agency Leadership. Responsibilities for these roles include:

- Attend Internal Control Program training to develop competence with regards to managing internal controls
- Understand Agency strategy / objectives to effectively identify risks
- Own risk prioritization, control identification and control performance within areas of responsibility
- Update risk assessment, at least annually
- Identify, document, and maintain internal controls for identified risks
- Perform Control Owners Self-Assessments to monitor the effectiveness of the Internal Control Program
- Identify and report control issues
- Identify and implement remediation plans for identified control issues
- Identify, document and implement remediation actions to address control deficiencies

2.1.6 Second Line of Defense – Statewide Internal Control Officer

Develops and maintains the Framework and associated tools to enable an effective Internal Control Program across the State. This includes maintenance of the guidance, communication, training and reporting on Program performance. The Statewide Internal Control Officer provides direction and consulting to the Agency level personnel with regards to implementing and operating the Internal Control Program. Responsibilities include:

- Maintain the Statewide Internal Control Framework and associated tools for statewide usage
- Monitor the effectiveness of the Internal Control Program and report to the State Board of Internal Control
- Annually review the Internal Control Framework and compare it against Statewide performance and external guidance (i.e., COSO) to identify applicable updates
- Provide onboarding / training to new Board members and all Agency Internal Control Officers
- Support coordination and delivery of quarterly Board meetings, including administrative support as needed
- Provide summary reporting regarding risk assessment and internal control performance to the Board, and other stakeholders as needed
- Monitor reported control issues and remediation actions for all Agencies
- Consult with Agencies regarding appropriate risk and control activities, as needed
- Maintain role as business partner, trusted advisor for all Agencies

2.1.7 Third Line of Defense – Independent Assurance

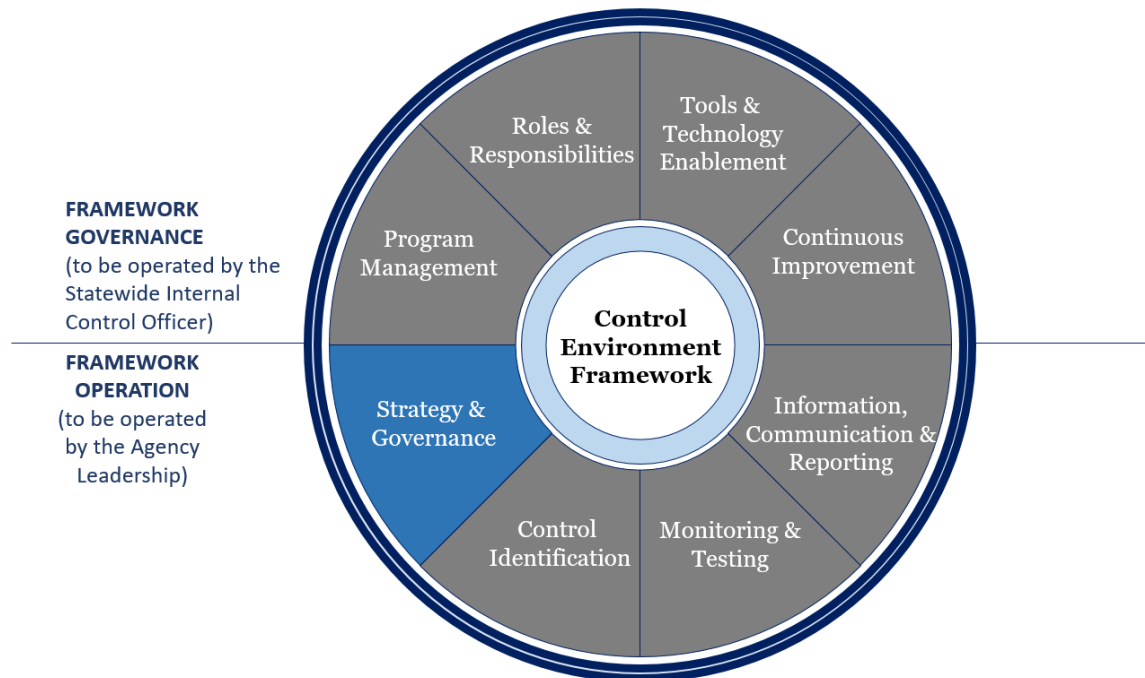
An internal / external function that provides independent testing and monitoring of the control environment (e.g., DLA for many financial controls). Independent Assurance is relied upon for an objective viewpoint regarding the effectiveness of the Internal Control Program and should be leveraged in higher risk areas to

provide Agencies and their stakeholders with assurance the Internal Control Program is operating effectively. Responsibilities for these types of Independent Assurance functions include:

- Provide independent and objective assurance regarding the Internal Control Program
- Communicate audit results and identified internal control issues to relevant parties
- Perform audits aligned with a risk-based approach
- Collaborate with Agencies and other Assurance Providers to coordinate risk coverage and minimize duplication of effort
- Review risk assessment results and provide feedback
- Review significant control issues and associated remediation actions for feedback

3.0 Strategy & Governance

Internal control strategy and governance is the responsibility of Agency Leadership and should be established, communicated and measured to operate an effective Internal Control Program at the Agency level.



3.1 Setting Internal Control Strategy and Objectives

The foundation, discipline, and structure for the Internal Control Program should be set through effective tone and support by Agency Leadership. This establishes an overall expectation and strategy related to internal controls at the Agency level, which is then supported by activities performed by Agency personnel.

Agency Leadership, with oversight by State Leadership, set objectives to meet Agency and State missions, strategic plans, goals, and state statutes. Leadership should set objectives as part of the strategic planning process, which serves as a critical input to the Agency's Internal Control Program. Objectives should be specific and measurable to enable identification, prioritization, and response to respective risks.

For the purposes of the Internal Control Program and alignment to COSO guidance, internal controls should be designed and operated across three types of Agency objectives: Operational, Financial, and Compliance, as detailed below:

- Operational objectives specify and measure the effectiveness and efficiency of operations needed to meet Agency objectives. These objectives cover all key functional areas within an Agency which have a significant impact on the Agency's ability to provide the programs and services expected by Agency stakeholders.
- Financial objectives specify and measure the accuracy and availability of financial information, including the reliability of financial reporting for internal and external use.
- Compliance objectives are related to internal and external compliance obligations which the Agency is responsible for complying with (e.g., state statutes, federal laws, etc.).

Although Agency strategy and objectives will take different forms depending on Agency needs, it is critical for some level of Agency objectives to be documented, communicated, and maintained by Agency Leadership to enable effective risk identification and ultimately operating an effective Internal Control Program.

3.2 Establishing Internal Control Accountability and Performance Measures

A key role for Agency Leadership is to establish a tone of importance and accountability related to internal controls. Assigning and maintaining Agency-level roles and responsibilities in alignment with Framework guidance is a key step to establishing appropriate accountability throughout the Agency.

Roles and responsibilities should be assigned to individuals in positions with the right level of authority, capacity and internal control understanding (i.e., competency) to effectively operate within the assigned roles. These roles will differ across Agencies depending on the specific circumstances and needs of the Agency, and Agency Leadership is ultimately responsible for the appropriateness of the roles assigned.

Once roles are assigned, Agency Leadership should work with the Agency Internal Control Officer ("ICO") to communicate roles and responsibilities to assigned individuals and ensure their roles are understood.

To monitor ongoing effectiveness of the Internal Control Program, Agency Leadership should work with the ICO to establish appropriate internal control performance measures which will indicate if the Program is operating as expected within the Agency. Performance measures should be reported at least annually within the Agency and provided to the State Board of Internal Control (SBIC) for monitoring of Program effectiveness.

There is a set of Standard Performance Measures which all Agencies are responsible for tracking and reporting, as listed below:

1. % of Risks by Type (Operational, Financial and Compliance)
2. % of Risks by Priority (Critical, High, Medium, Low)
3. % of Control Owner Self-Assessments Completed On-time
4. % of Critical / High Priority Risks with an Identified Control Issue
5. % of Past Due Remediation Actions

In addition to the Standard Performance Measures detailed above, Agencies are encouraged to identify additional measures which align to their Agency-specific Internal Control Program goals and objectives. These measures are at the discretion of the Agency and can be reported to the extent Agency Leadership sees value in reporting outside of the Agency. Example performance measures may include:

1. % of Risks with Priority Changes (Year-over-Year)
2. Control Issues by Risk Type (Operational, Financial and Compliance)
3. Control Issues by Functional Area
4. # of Control Owners with Identified Control Issues
5. % of Controls with Independent Audit Issues (not identified by Control Owner)
6. # of Controls with Repeat Issues
7. % of Preventive vs. Detective Controls
8. % of Controls by Frequency (Annual, Quarterly, Monthly, Daily, etc.)

Expected goals and tolerance levels should be established for each Performance Measure within the Agency, with Agency Leadership taking appropriate actions in response to any Performance Measures which are out of expected tolerance levels. Actions may include Agency-wide communication to reinforce the importance of the Program, training sessions in specific areas of need, or any other action which Agency Leadership believes will enforce accountability and support the ongoing success of the Internal Control Program.

For established Performance Measures, the Agency ICO is responsible for coordinating the collection of Performance Measure data and providing consolidated reporting on the agreed upon timeline to Agency Leadership and other key stakeholders (e.g., SBIC) as needed.

3.3 Communicating Internal Control Expectations and Results

The Statewide Internal Control Communication Plan is outlined below and provides the *minimum* guidance on communication requirements to be adhered to by all key individuals within the program. The Plan is meant to:

- Drive transparency and reward honesty and integrity
- Maintain awareness of the Internal Control Program and its importance to the State
- Focus on internal control responsibilities, Agency/State objectives, policies/procedures, ethics and values
- Outline minimum communication requirements on an annual, quarterly, and ad-hoc basis
- Address deviations in a timely manner

	Key Individual Communication Requirements
Annual	<p><u>State Leadership → Statewide</u></p> <ul style="list-style-type: none"> ● Establish tone of internal control by communicating the importance of Framework & Commitment to Internal Controls (within one month of fiscal year start) <ul style="list-style-type: none"> o Include focus areas based on prior year results, performance, metrics ● Communicate internal Control Performance and Priorities <p><u>Board → State Leadership</u></p> <ul style="list-style-type: none"> ● Create annual work plan

Quarterly	<p><u>Statewide and Agency ICO → Board</u></p> <ul style="list-style-type: none"> ● Monitor Control Owner Certifications, Summarize Statewide and Agency Reporting (upon Control Owner completion of certification) <p><u>Board → State Leadership</u></p> <ul style="list-style-type: none"> ● Review Communication Materials for Consistent Messaging/Tone (prior to release of Board communication to State) ● Review Summary Reporting and Approve / Recommend Actions (after Agency preparation of Summary Reporting, and prior to Remediation implementation) <p><u>State Leadership → Agency Leadership</u></p> <ul style="list-style-type: none"> ● Monitor Training Metrics (after each Agency has conducted training) ● Communicate summary of Internal Control Program Performance (within two weeks of the start of quarter start) o Include forward-looking areas of focus/priority <p><u>Agency Leadership → Board</u></p> <ul style="list-style-type: none"> ● Receive Summary Reporting and approve remediation actions <p><u>Agency Leadership → Agency Staff</u></p> <ul style="list-style-type: none"> ● Communicate Importance of the Framework and Commitment to Internal Controls (within two weeks of quarter start) ● Receive Summary Agency Reporting and Approve Remediation Actions (after Control Owner preparation of Summary Reporting, and prior to Remediation implementation) <p><u>Control Owner → Agency ICO</u></p> <ul style="list-style-type: none"> ● Certify control environment (within one week subsequent quarter end)
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Ad-hoc	<p><u>State Leadership, State Board of Internal Control, Agency Leadership, Agency ICOs → Agency Staff</u></p> <ul style="list-style-type: none"> ● Address significant changes or performance issues (based on triggers, below) <ul style="list-style-type: none"> ○ Five (5)/greater deficiencies per year; new risks unaddressed, personnel performance issues, etc. ● Administer, receive training (based on triggers, below) <ul style="list-style-type: none"> ○ Five (5)/greater deficiencies per year; new risks unaddressed, new personnel, personnel performance issues, etc. <p><u>Agencies → Statewide ICO</u></p> <ul style="list-style-type: none"> ● Consult on Risk and Control Concepts (based on triggers, below) <ul style="list-style-type: none"> ○ Questions, review, approval, knowledge sharing <p><u>Statewide ICO → Statewide</u></p> <ul style="list-style-type: none"> ● Drive Consistent Messaging (based on triggers, below) <ul style="list-style-type: none"> ○ Triggers include Agencies/Control Owners not adhering to Framework Guidelines, new State Leadership/Board Members/Agency ICOs <p><u>Control Owner → Agency ICO</u></p> <ul style="list-style-type: none"> ● Report deficiencies and remediation action (as part of control testing procedures, progress with remediation efforts, issues with remediation, etc.)
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3.4 Developing Internal Control Competencies

Agency Leadership and the Agency ICO are responsible for identifying internal control training needs within their Agencies and delivering training where appropriate. Standardized training is developed by the Statewide Internal Control Officer (SWICO) and available for use by all Agencies. The goal of the internal control training modules is to provide users of the Framework with practical knowledge and understanding of the Internal Control Program to promote consistent performance across Agencies.

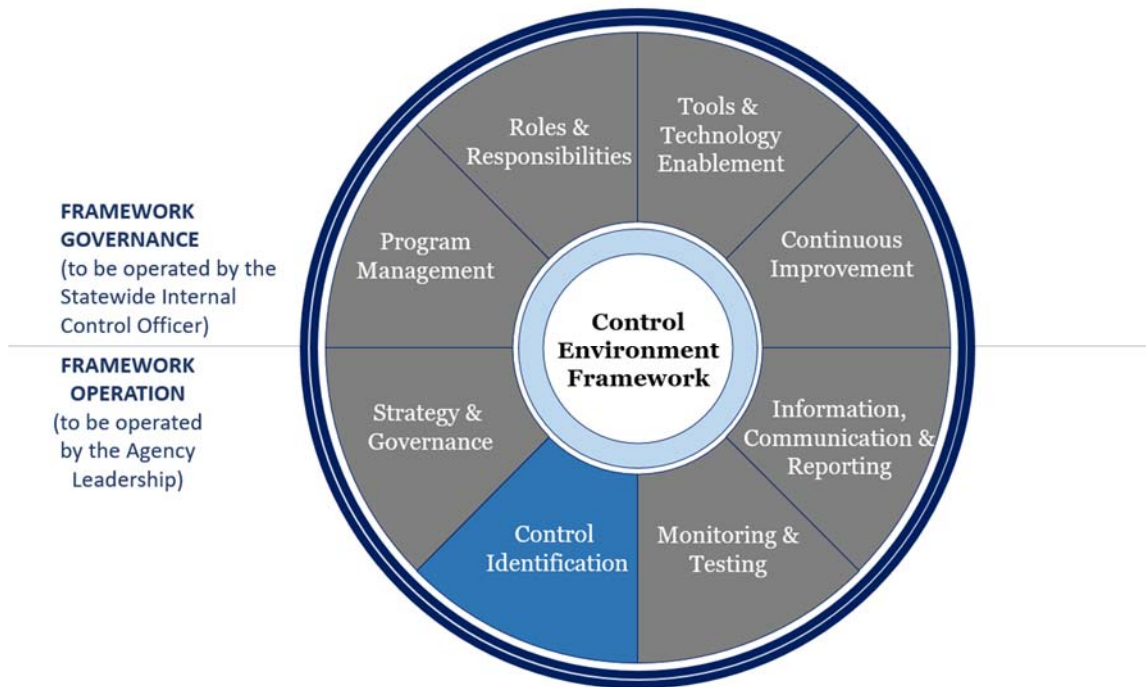
The Training Plan outlined below should be leveraged by Agencies to develop appropriate internal control competencies across their personnel. Training sessions and participants should be tracked by the Agency ICO to validate training has been provided to the appropriate personnel at the appropriate time.

Training Course	Training Attributes	Training Provider	Frequency	Participants
Internal Control Program Overview <i>Refer to respective training document.</i>	Overview: Overview of the Framework, tools, roles and responsibilities Duration: 2 hours Key Points: <ul style="list-style-type: none"> • Development of the Statewide Internal Control Program • Internal Control Program at the State • Program Management • Internal Control Tools • Internal Control responsibilities (communication, training, accountability of program) 	Agency Internal Control Officers	<u>Ad-hoc</u> Program Overview training should be administered as needed, and based on the addition of new personnel to the internal control program (within one month of hire date/date of start in role)	Personnel new to the internal control program (all roles and levels)
Advanced Internal Control Concepts <i>Refer to respective training document.</i>	Overview: Deeper understanding of risk and control concepts Duration: 2 hours Key Points: <ul style="list-style-type: none"> • Risk Identification Methods • Types of Risk • Risk Prioritization • Risk Assessment Process • Categorization of Control Activities • Monitoring Risk • Reporting Risk Results 	Statewide Internal Control Officer	<u>Ad-hoc</u> Advanced Internal Control Concepts training should be administered as needed, and based on addition of new ICOs and/or specially selected Control Owners, as determined by Agency ICO (within one month of new position date / one month of determination by Agency ICO)	ICOs new to the role and select Control Owners
Control Owner Responsibilities <i>Refer to respective training document.</i>	Overview: Risk assessment, control identification, control performance and certification Duration: 3 hours Key Points: <ul style="list-style-type: none"> • Adhering to State Internal Control Policies and Procedures • Taking ownership of the internal control program (conducting the Risk Assessment, Identifying/Documenting Controls, Performing Controls) • Certifying the control environment • Reporting deficiencies • Remediating deficiencies 	Agency Internal Control Officers	<u>Ad-hoc</u> Control Owner Responsibilities training should be administered as needed, and based on addition of new control owners, or those with performance issues (within one month of hire date / one month of performance evaluation)	New Control Owners and Controls Owners with performance issues
Internal Control Officer Responsibilities <i>Refer to respective</i>	Overview: Introduction to processes and tools used to perform ICO responsibilities Duration: 2 hours Key Points:	Statewide Internal Control Officer	<u>Ad-hoc</u> ICO Responsibilities training should be administered as needed, and based on addition of new ICOs and/or those with performance issues	New ICOs and ICOs in agencies with performance issues

<i>training document.</i>	<ul style="list-style-type: none"> • Communicating/Driving importance of internal controls • Administering training internal over the control program • Guiding the team through the internal control program requirements • Monitoring Control Owner certification • Agency internal control reporting 		<i>(within one month of hire date / one month of performance evaluation)</i>	
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4.0 Control Identification

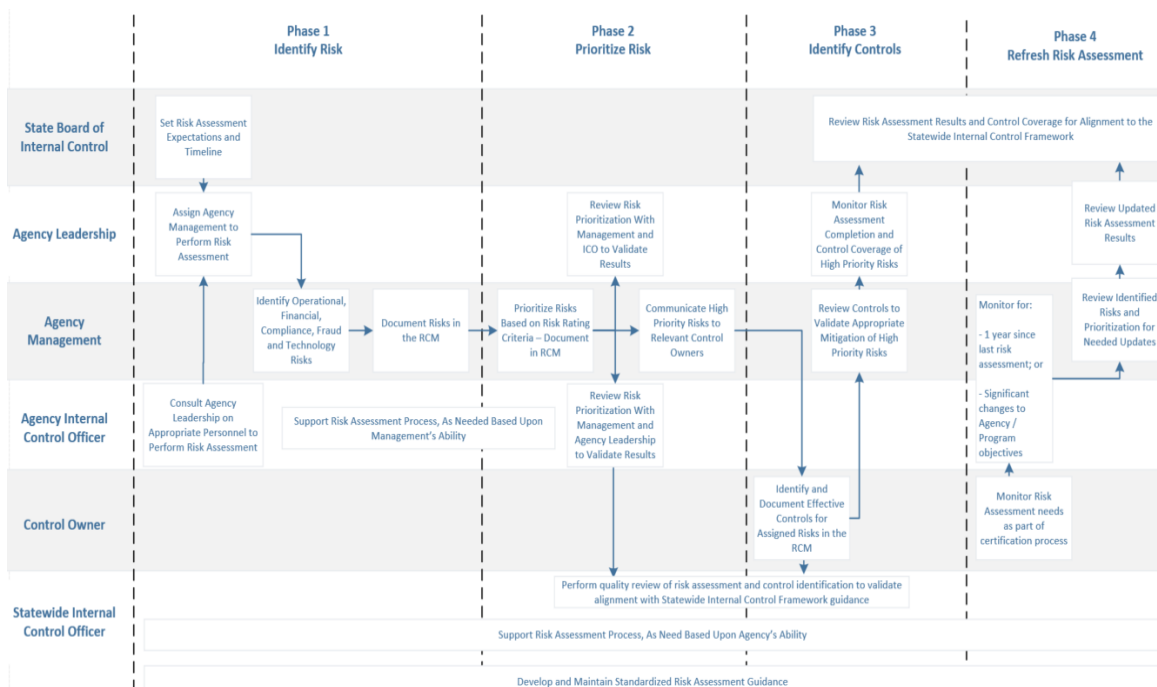
The Framework Standard related to Control Identification provides guidance and tools for Agencies to effectively identify and prioritize risks (i.e., Risk Assessment), and to design and operate internal controls to manage the identified risks.



Control Identification should be a continuous process within the Agency which encompasses four key steps:

1. Risk Identification
2. Risk Prioritization
3. Control Identification
4. Refresh Risk Assessment

These steps are depicted in the diagram below and explained further throughout this section.



4.1 Risk Identification

4.1.1 Understanding Agency Objectives

Internal Controls are defined as processes or activities which provide reasonable assurance that Agency objectives will be achieved. As captured in the definition, there is a direct linkage between internal controls and the stated objectives of the Agency. Therefore, to operate an effective Internal Control Program, it is important for Agency objectives to be defined and provide context which will support the identification and prioritization of Agency risks and controls. Stated objectives may take many different forms (e.g., Strategic Plan, Operating Objectives, Value Statements, etc.) and should support the Agency's overall mission and goals. Agency Leadership is ultimately responsible for setting clear objectives which provide enough context to support an effective Internal Control Program. At minimum, Agency objectives should be:

- Measurable (i.e. quantified by Agency/State specifications)
- Relevant (i.e. clearly linked Agency Mission and goals)
- Attainable (i.e. defined milestones, completion dates, etc.)

The Agency ICO should work with Agency Leadership to identify the appropriate Agency Management personnel to be responsible for performing Agency risk assessment. Personnel responsible for risk assessment should have a clear understanding of Agency objectives and the context with which to determine risks which could impact the achievement of those objectives.

4.1.2 Identifying Risks

Risk Identification is the process of determining the risks that could potentially prevent the State, Agency, or Program from achieving its stated objectives. For the purposes of operating an Internal Control Program, risks are categorized into the following:

1. **Operational Risks** - Risks directly aligned to achieving Agency, Program and Functional objectives. These risks will be unique to each specific Agency depending on the Agency's

operating objectives. *Example consideration: “What needs to go right for us to achieve of our strategy, objectives and goals?”*

2. **Financial Risks** - Risks which impact the accuracy and availability of Financial information. This includes both information which is used for external financial reporting and information which is used for internal financial reporting used to make management decisions. *Example consideration: “How do we ensure our funds are appropriately allocated, used and accounted for?”*

Financial risks may be unique depending on the specific objectives and functional responsibilities of each individual Agency; however, there are typical areas of financial risk which should be considered by all Agencies, which include:

- Budgeting
 - Allocation of budgets to meet needs
 - Forecasting
 - Budget Monitoring
 - Variance Analysis
 - Accounting
 - Accurate Recording of Activities
 - Designation of Funds
 - Accurate Reporting (Internal / External)
 - Significant Accounting Estimates
 - Disbursements
 - Payments
 - Grant Management
 - Capital Spending
3. **Compliance Risks** - Risks which align to State and Federal requirements imposed through laws and regulations. Compliance risks exist due to specific requirements by compliance oversight bodies, State/Federal compliance requirements, and state statutes. *Example consideration: “How do we know we are in compliance with regulatory requirements?”*

Compliance risks are unique to the specific requirements imposed on the Agency by governing bodies; however, the following risks should be considered for each compliance obligation:

- Governance
 - Policies / Standards Maintained
 - Clear Authority, Roles and Responsibilities
 - Communication of Requirements to 3rd Parties
- Execution
 - Specific Criteria to Comply with Requirements
 - Monitoring of 3rd Party Compliance
- Reporting
 - Consolidation of Compliance Information
 - On-time Reporting
 - Reporting to Relevant Bodies

4.1.3 Considering Fraud and Technology Risks

In addition to the three types of risk described above, Agency objectives are susceptible to risk factors related to fraud and technology. These risk factors are inherent in all types of Agency objectives and should be considered for in conjunction with each risk type (i.e., operational, financial, and compliance).

At minimum, Agency risk identification should consider the following risk factors for each key objective:

- Fraud
 - Lack of Segregation of Duties
 - Unlimited Access to Records or Resources
 - Asset Misuse or Misappropriation
 - Procurement Fraud
 - Waste and Abuse
- Technology
 - Loss / release of critical business data
 - Security and identity management
 - Application development challenges
 - Lack of IT Governance
 - Insufficient controls related to Electronic Records Management

4.2 Risk Identification Methods

Agency Management responsible for risk assessment should document the identified risks within the Risk and Control Matrix (“RCM”), as defined within the State risk definition standards (refer to Risk Prioritization Criteria, below). Agency Management should focus on risks which are likely to be the most impactful to the Agency’s achievement of stated objectives, which will result in the Agency’s Internal Control Program focused on a manageable number of risks and controls which have the greatest impact, as opposed to a larger quantity of identified risks which do not substantially improve the Agency’s Internal Control Program while negatively impacting the sustainability of the Program.

To the extent Agency Management prefers to leverage input from a wider range of personnel related to risk identification, the following methods could be used to solicit such input:

1. Risk Questionnaire: Survey-type method to collect potential risk areas related to Agency objectives.
2. Risk Interviews: One-on-one conversations to analyze Agency objectives and identify potential risk areas.
3. Risk Workshops: Group workshop to analyze Agency objectives and identify potential risk areas.

Agency Management is responsible for maintaining a current list of relevant risks within the RCM, with at least an annual review and update of the risks. The Agency ICO should review the identified risks at least annually to validate alignment with Internal Control Framework and provide any needed feedback to Agency Management for incorporation into the risk identification process.

4.3 Prioritizing Risks

Agency Leadership should prioritize the identified risks using the Risk Prioritization Criteria described below. The Risk Prioritization Criteria provides a common methodology to determine which risks have the potential to significantly impact Agency objectives. Agency Management responsible for the risk assessment process should leverage the criteria to rate each risk and develop a prioritization specific to their Agency. The risk rating should be documented within the RCM for clear communication and tracking. Additional discussions or meetings may be necessary to validate agreement on the Agency’s risk prioritization, and the Agency ICO should be consulted with questions related to this process.

It is important to note that risk prioritization is based on inherent risk to the Agency, which means the risk rating should be considered without factoring in risk mitigation activities such as internal controls. The purpose of the inherent risk rating is to identify the risks which are most impactful to the Agency’s

objectives, which provides a prioritization of where the Agency should focus resources and formality around internal controls to manage these risks.

The results of the risk prioritization should be shared and validated with Agency Leadership. The risk prioritization should ultimately provide Agency Leadership and other stakeholders with:

- Clearer understanding of the risks inherent in day-to-day business activities
- Clearer understanding of risk priority to more effectively deploy resources
- Identification of risks which may require additional attention and/or risks which may require less attention

4.3.1 Risk Prioritization Criteria

Risk prioritization is based on two factors for each risk:

- **Impact:** If the risk were to occur, the potential impact the risk could have the Agency's ability to achieve stated objectives.
- **Likelihood:** The probability of the risk occurring and impacting the Agency's objectives

Agency Management responsible for the risk assessment are required to document an impact and likelihood rating for each risk. The ratings assigned should be based on the below guidance:

4.3.2 Impact Rating Guidance

Risk Category	Low (1)	Medium (2)	High (3)	Critical (4)
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 Guidance

Likelihood ratings should be considered over a 12-18-month time horizon.

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

The assigned impact and likelihood ratings are consolidated into a single rating for each risk which provides the overall risk prioritization rating. Risk prioritization ratings are separated into four categories (Critical, High, Medium, and Low) based on the assessed impact and likelihood, as depicted below:

Likelihood of Occurrence	Almost Certain	Medium	High	Critical	Critical
	Likely	Medium	Medium	High	Critical
	Possible	Low	Medium	Medium	High
	Unlikely	Low	Low	Medium	High
		Low	Medium	High	Critical
		Consequence of Impact			

The final risk prioritization should guide the Agency with relation to assigning Control Owners and developing / monitoring control activities to manage the identified risks.

4.4 Identify Controls

In order to achieve an effective internal control system, the Agency should design control activities to address Agency objectives and risks. Agency Management responsible for performing the risk assessment

should assign Control Owners based on the results of the risk prioritization. Control Owners should typically be the personnel responsible for the day-to-day management of the risk.

At minimum, Agencies are responsible for assigning Control Owners and documenting controls for any risks prioritized as Critical and High. Agencies are encouraged to cover Medium and Low risk areas to the extent it is valuable for the Agency and supports effective operating practices.

Once assigned, Control Owners have the responsibility for validating controls are effectively designed and operating to manage the underlying risks.

4.4.1 Types of Control Activities

Controls may take many different forms depending on the underlying risk, Agency operations and the preferred method of risk management by Agency Leadership. The following are different types of controls which Agencies should consider as they address their risks (Note: This should not be considered an all-encompassing list of control types, but rather an example list to provide ideas for potential control activities):

1. **Business Performance Reviews:** Formal reviews focused on progress toward established, measurable goals - typically involving cross-functional teaming with clear action plans and progress reporting - including monitoring of established performance indicators.
2. **Segregation of Duties (SOD):** Segregation of key duties and responsibilities among Agency employees to reduce the risk of error, misuse, or fraud.
3. **Transaction Processing:** Process to ensure valid transactions are used to exchange, transfer, use, or commit resources on behalf of the Agency.
4. **Accuracy and Timeliness of Transaction Recording:** Prompt recording of transactions to maintain relevance and value to Leadership in controlling operations and making decisions.
5. **Record and Resource Access:** Access restrictions to resources and records to authorized individuals, including accountability for custody and use.
6. **Transaction Documentation:** Clear documentation of transactions / significant events to allow documentation be readily available for examination.
7. **System / Automated:** Controls performed within a system which ensure information is processed accurately, completely and for valid purposes.
8. **Talent Management:** Mechanisms in place to facilitate a workforce with required knowledge, skills, and abilities to achieve Agency objectives.
9. **Information Processing:** Processes, procedures, and controls related to information handling which may include edit checks of data entered, accounting for transactions in numerical sequences, comparing file totals with control accounts, and controlling access to data, files, and programs
10. **Physical Access to Vulnerable Assets:** Physical controls to secure and safeguard vulnerable assets (e.g. security for, limited access to, assets such as cash, securities, inventories, and equipment, vulnerable to risk of loss or unauthorized use), including periodic asset counts.

When considering different types of control activities, Control Owners should assess which type of control, or combination of controls, provides the greatest level of assurance that the underlying risks are being managed effectively. Although many controls exist which may be related to the risk, the Internal Control Program is focused on the controls which provide the greatest coverage over the highest priority risks. This will allow management to focus resources on the highest value controls and support the long-term sustainability of the Internal Control Program.

4.5 Design Controls

Once the appropriate controls are identified, the Control Owner should document the key aspects of the control within their Agency's Risk and Control Matrix (RCM). The RCM contains standardized data fields

for each control within the State's Internal Control Program to support understanding of the control by Control Performers, while also supporting consolidated monitoring, testing, and reporting on the State's Internal Control Program. The purpose of clearly documenting controls in the RCM is to:

- Clearly align Agencies, objectives, risks and controls to demonstrate coverage of key Agency risks
- Facilitate consistency in the documentation of risks, prioritization, and controls
- Support monitoring and reporting of the control environment
- Create opportunity to leverage risks and controls common to Agencies, Statewide
- Support repeatability and sustainability of the Internal Control Program

The Statewide Internal Control Framework requires the use of certain data fields within the RCM for each Agency. These data fields have been considered highly valuable to the effectiveness of the overall Internal Control Program and should be populated for each control activity. The required data fields include:

- **Agency:** State Agency, Bureau, Office, Program, etc. responsible for the identified objective
- **Agency Objective:** Strategic / Operational objective to drive Agency mission
- **Sub-Objective:** More specified sub-objective to support the overall Agency Objective
- **Risk:** A description of the people, process or technology risk which may impact the achievement of the stated sub-objective
- **Risk Impact:** First risk prioritization criteria and justification for that impact rating
- **Risk Likelihood:** Second risk prioritization criteria and justification for that likelihood rating
- **Risk Rating:** Combined rating based on the Risk Prioritization Criteria provided in the Framework
- **Control #:** A unique number assigned to the control for tracking and reporting. Numbering should follow the standard scheme of: [3 letter Agency abbreviation]-[###]. Ex: DOL-021
- **Control Activity Description:** Clearly defined control which captures key information such as: Frequency of the control, who performs the control, what inputs / data / information is used to perform the control, what is done with the information to perform the controls, how are issues / discrepancies identified during control performance handled, and how is performance of the control evidenced
- **Control Performance Details:** Additional details to support effective performance of the control, including details which may support ongoing performance of the control in a consistent and effective manner. This may include specific details which will support onboarding new Control Owners.
- **Control Type:** Designation to determine if the control is considered to be addressing an Operational, Financial or Compliance objective / risk
- **Preventative/Detective:** Designation to determine if the control is designed to prevent errors, inaccuracy or fraud before it occurs ("Preventative) or is intended to uncover the existence of errors, inaccuracies or fraud that has already occurred ("Detective").
- **Frequency:** The frequency at which control is performed; options, as follow:
 - Multiple times/day
 - Daily
 - Weekly
 - Monthly
 - Quarterly
 - Annually
 - Ad Hoc / As needed
- **Required Inputs:** Pertinent information needed to perform the control (e.g., forms, reports, data analysis, etc.)
- **Supporting Technology:** If applicable, list of technology applications used to perform the control
- **Control Owner:** The individual at the Agency that is responsible for assuring that the control:
 - Is properly implemented
 - Is performed as defined
 - Results are monitored

- Remediation, adjustment, actions are completed
- Certification actions are completed as required by Agency Internal Control Certification policies.
- **Control Performer:** The individual or group of individuals at the Agency that perform the control
- **Last Self-Assessment Date:** The date of the last completed Control Owner Self-Assessment
- **Deficiency Summary:** If deficiency exists (either self-identified or through an independent audit), an explanation of how control design / operation fails to allow the Agency, in the normal course of performing functions to timely prevent or detect errors, inaccuracy, or fraud
- **Remediation Action Plan:** To the extent a deficiency exists, a documented plan to address the deficiency, which should include key action items, milestones, and owners

The following RCM data fields are considered optional and are at the Agency's discretion to determine applicability and value of tracking this information to manage the Internal Control Program at the Agency level.

- **Reference to Policy:** If applicable, indicate State/Agency policy aligned with control
- **Reference to Compliance Requirement:** If applicable, indicate the specific compliance requirement aligned with control
- **Automated/Manual:**
 - Manual: Control performed manually by a State Employee
 - Automated: Control performed by a system / application
- **Independent Assurance Provider:** If applicable, indicate whether there is an independent assurance provider which monitors or audits this control
- **Design Assessment:** Designation for if the control is considered appropriately designed to manage the underlying Agency objective / risk
- **Operating Assessment:** Designation for if the control is considered operating effectively to manage the underlying Agency objective / risk
- **Control Precision:** The degree to which the control is performed, such as financial thresholds, tolerable variances, etc.

Once the appropriate controls are designed and documented in the RCM, the Control Owner should monitor the environment to identify if any modifications are needed to maintain effective coverage over key Agency objectives and risks.

Agency Management responsible for risk assessment should review the controls identified for their assigned risk areas to validate the controls are effectively designed to address the underlying Agency objectives / risks. To the extent controls do not fully cover the objectives or risks, Agency Management should work with the Control Owner(s) to close the gap.

Agency Leadership is responsible for reviewing the risk assessment and controls to validate appropriate coverage of Agency risks. At minimum, Agency Leadership should validate their agreement on the risks prioritized as High and Critical, and the appropriateness of the controls to manage those risks.

The Agency ICO should also monitor the completion of the risk assessment and the appropriateness of controls to manage the identified risks. Feedback and training should be provided, as needed.

4.6 Refresh Risk Assessment

Agency Leadership and Agency Management are responsible for monitoring the risk environment for their Agency, including responsibility to update and maintain an accurate risk assessment. At minimum, the Agency risk assessment should be formally updated annually, which includes a review of the identified risks and assigned priority ratings. The risk assessment refresh should focus on:

- Are the identified risks still relevant based on current Agency strategy and objectives

- Are the assigned priority ratings still accurate based upon current knowledge of Agency objectives and the impact / likelihood of the underlying risks
- Should any new risks be considered and documented based on current Agency strategy and objectives

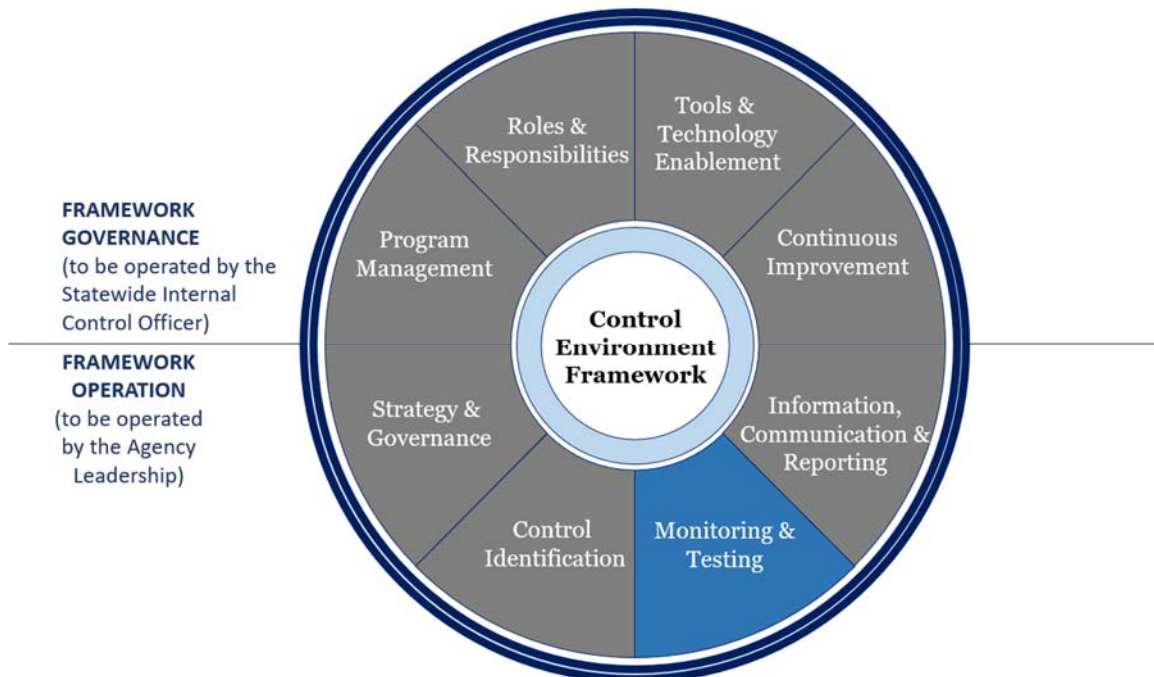
In addition to the annual risk assessment refresh, Agencies are encouraged to formally update their risk assessment any time significant changes occur within the Agency (e.g., changes in strategy / objectives, new leadership, etc.).

As the risk assessment is refreshed, Agency Management should work with the relevant Control Owners to update the identified controls, as needed. Specifically in areas where new risks are identified or risk priority is changed, Control Owners should be consulted to validate the appropriateness of the control environment to manage the risks to an acceptable level.

Results of the risk assessment refresh and any changes to the related controls should be summarized and reviewed by Agency Leadership to validate appropriate identification and coverage of Agency risks.

5.0 Monitoring & Testing

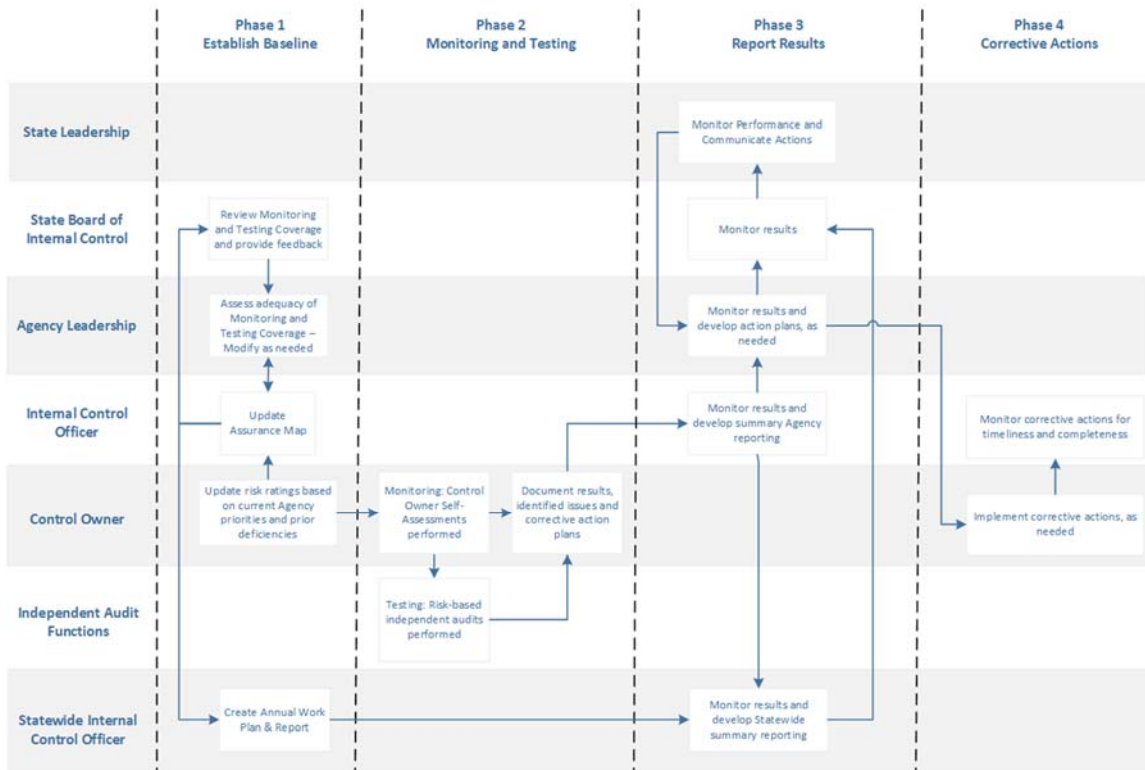
The Framework element Monitoring & Testing provides guidance and tools for Agency risk to be effectively monitored and tested to validate overall effectiveness of the Internal Control Program. Each Agency's internal control landscape will continue to evolve as the objectives and risks do. It is crucial that the processes for monitoring and testing the associated controls are dynamic and continually adapt to provide assurance that internal controls are aligned with evolving objectives, environment, laws, resources, and risk. Refer to **Appendix 2** for the detailed COSO principles that comprise this component.



5.1 Performing Monitoring and Testing of Controls

Control Monitoring and Testing should be conducted to provide Agency and State Leadership, and other stakeholders with assurance regarding the operation and compliance of Agency controls, that they are in place and operating effectively, and identify potential areas of failure or violation.

5.2 Monitoring and Testing Process Flow



The Monitoring and Testing cycle should be used as a guideline for information flow, responsible parties, and means of carrying through responsibilities. The process map, above, outlines the actions of key roles across four (4) phases of this process:

5.2.1 Phase 1 – Establish Baseline

The process begins with Agency Control Owners updating risk ratings based on related conditions within the Agency. The Agency Internal Control Officer tracks these updates, and Agency Leadership and State Board of Internal Control assess and review the audit coverage per review of the Annual Work Plan, as developed by the Statewide Internal Control Officer.

Assurance Map - To effectively monitor and report on Independent Audit coverage for each Agency, the Agency Internal Control Officer should work with the Control Owners to track High and Critical risks, and the functions that provide independent audit coverage for those risks.

An Assurance Map is a matrix tool that should be developed, used, and maintained by the Agency Internal Control Officer to monitor the coverage. An example of the tool, in the figure below, is a tracking mechanism that will enable the Agency Internal Control Officer to summarize Agency risks and related independent audit providers. It is intended to provide insight into potential shortcomings of high or critical risk coverage and enable the Agency to make better decisions in determining where to place focus on the independent audit function. The Assurance Map is a means of certifying up the chain to the public that the Agency has controls in place and that they're operating as intended to manage risk within the Agency. The Agency Internal Control Officer should update and close the gaps on coverage on at least an annual frequency.

The figure below displays Risks and respective Controls on the left and self-assessment tracking to the right. High and Critical rated risks are denoted in red to highlight independent audit coverage requirements. If these risks are not captured by an independent audit, this tracker indicates a gap with and the Agency Internal Control Officer should conclude that this should be summarized and reported for Board awareness, and efforts should be focused in these areas to close the gap.

State of SD: Agency-Level Assurance Map Example

Risk	Control	Risk Rating	Monitoring	Independent Audit					
			DLA	Agency Function 1	Agency Function 2	Federal Agency 1	Federal Agency 2	ICO	
Operational									
Report Card information is developed based on inaccurate data collected related to school performance	Data collected from schools is reconciled to source documents by the Manager of Report Card Reporting to validate accuracy.	Critical	X						
Risk 2	Control 2	Medium	X		X				
Risk 3	Control 3	Medium	X						
Financial									
Risk 1	Control 1	High	X	X					
Risk 2	Control 2	Medium	X	X					
Risk 3	Control 3	Low	X	X					
Compliance									
Risk 1	Control 1	Critical	X						
Risk 2	Control 2	Low	X				X	X	
Risk 3	Control 3	Medium	X		X		X	X	

5.2.2 Phase 2 – Monitoring and Testing

As part of the Monitoring and Testing phase, ongoing assurance is provided over the Agency internal control environment. Control Owners conduct self-risk assessments over controls. Additionally, during this phase, the Agency determines the extent that independent assessments should be conducted.

There are two (2) methods the Agency can use to provide ongoing assurance over the internal control environment:

1. Control Owner Self-Assessment - In this Framework, Monitoring is defined as the *self-assessment* conducted by the Control Owners to foster risk and control awareness and ownership. It provides for early identification of risk and control issues, and in doing so provides Agency Leadership and the Board with ongoing insight into the control environment. Monitoring involves analyzing Agency risks and controls in place to identify weaknesses in performance of these controls designed to mitigate the risks.
2. Independent Auditing - In this Framework, Testing is defined as the *independent*, risk-based audit or testing of specific risks and controls. It provides an independent perspective related to the control environment, and enables compliance oversight and validation of the effectiveness of the Control Owner self-assessment process. Testing involves selection and review of controls within the Agency for adherence to policies and procedures.

The following chart illustrates these assurance guidelines for the Agency, including frequency, reporting, etc.

Assurance Guidelines

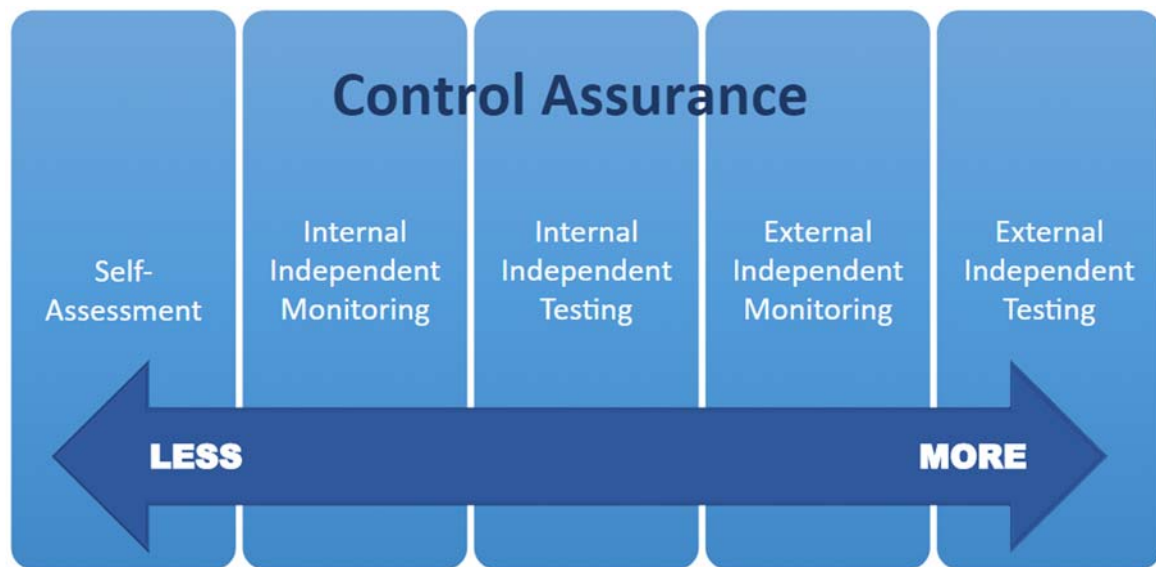
	Low Risk	Medium Risk	High Risk	Critical Risk
Control Owner Self-Assessment*	Required	Required	Required	Required
Independent Auditing**	Not Required	Not Required***	Required****	Required*****

* Conducted on Semi-annual frequency, at staggered schedule / rotational basis among all Agencies
 ** Frequency determined by Agency
 *** Rotational assurance strongly recommended
 **** Deviations reported to Agency Leadership
 ***** Deviations reported to Board

As illustrated in the diagram, Control Owner self-assessments should be conducted for every control within a control owner's responsibility, from low to medium to high to critical risk. The self-assessments should be conducted regularly, on a semi-annual frequency and also set on a staggered schedule to ensure all controls within the Agency are covered.

Additionally, Independent Auditing should be conducted for all high and critical risks, at a frequency agreed upon by Agency Leadership. Deviations for high risks should be reported to Agency Leadership, and those for critical risks should be reported to the Board, within one week of audit. Medium risk controls should be considered for Independent Auditing, at the discretion of Agency Leadership.

Control Assurance Spectrum - The following diagram is a spectrum of the assurance that can be achieved within the Agency, from low to high. As demonstrated in the figure below, less independent monitoring is achieved through internal procedures conducted by Control Owners within the Agency. More independent monitoring can be achieved through the involvement of an external/independent party conducting the monitoring and testing activities and procedures. Variations of monitoring occur between these two degrees, with external independent testing signifying greater independent monitoring than internal, self-assessment.



Self-Assessment - Self-Assessment is the foundation of the Monitoring and Testing mechanism at the State. Its procedures involve less independent monitoring conducted by Control Owners, categorized within the first line of defense. It creates higher accountability (than more independent monitoring activities) and insight into earlier identification of risk and control issues and reporting factors, and is what the First Line of Defense relies on to identify that controls are operating effectively, whether there are any control deficiencies, and whether a refresh to the Risk Assessment or Control Environment is necessary.

Control Owners should perform self-assessments over all controls within responsibility. Refer to “Assurance Guidelines” for frequency and control-specific requirements for the self-assessments.

Internal Independent Monitoring – Internal Independent Monitoring is an internal function performed by Agency State Employees outside the Control Owner responsibility. It should be used to provide a higher degree of independence than that of Self-Assessment to observe the quality of the internal control environment within the Agency, over a specified period of time. Internal Independent Monitoring will assist the Agency in determining the performance, quality, and reliability of controls within the Agency. It should be performed in the Third Line of Defense, independent of the Control Owner, and thus provide stakeholders with greater comfort that controls are being performed effectively to mitigate identified risks within the Agency. The Monitoring should be conducted for high and critical risks and should ascertain whether these risks are being managed effectively. Independent individuals should provide greater degree of independent insight to the first line of defense as to whether control updates are necessary.

Internal Independent Testing – Internal Independent Testing is an internal function performed by Agency State Employees outside the Control Owner responsibility. It should be used to provide a higher degree of independence than that of Internal Independent Monitoring to test and determine the quality of the internal control environment within the Agency, over a specified period of time. Internal Independent Testing should be performed in the Third Line of Defense, independent of the Control Owner, and thus provide stakeholders with greater comfort that controls are being performed effectively to mitigate identified risks within the Agency. The testing should be conducted for high and critical risks and should ascertain whether these risks are being managed effectively. Independent individuals should provide a greater degree of independent insight to the first line of defense as to whether control updates are necessary.

External Independent Monitoring – External Independent Monitoring is an independent function that should be used to observe the quality of the internal control environment within the Agency, specified over a certain period of time. It should be used to determine the performance, quality, and reliability of controls within the Agency. It should be performed in the Third Line of Defense, independent of the Control Owner, and thus provide stakeholders with greater comfort that controls are being performed effectively to mitigate

identified risks within the Agency. These audits should be conducted for high and critical risks, as to ascertain whether these risks are being managed effectively, and whether the self-assessment process is effective. Independent auditors should provide independent insight to the first line of defense as to whether control updates are necessary.

External Independent Testing – External Independent Testing is an independent audit function to test and determine the performance, quality, and reliability of controls within the Agency. It should be performed in the Third Line of Defense, independent of the Control Owner, and thus provide stakeholders with greater comfort that controls are being performed effectively to mitigate identified risks within the Agency. These audits should be conducted for high and critical risks, as to ascertain whether these risks are being managed effectively, and whether the self-assessment process is effective. Independent auditors should provide independent insight to the first line of defense as to whether control updates are necessary.

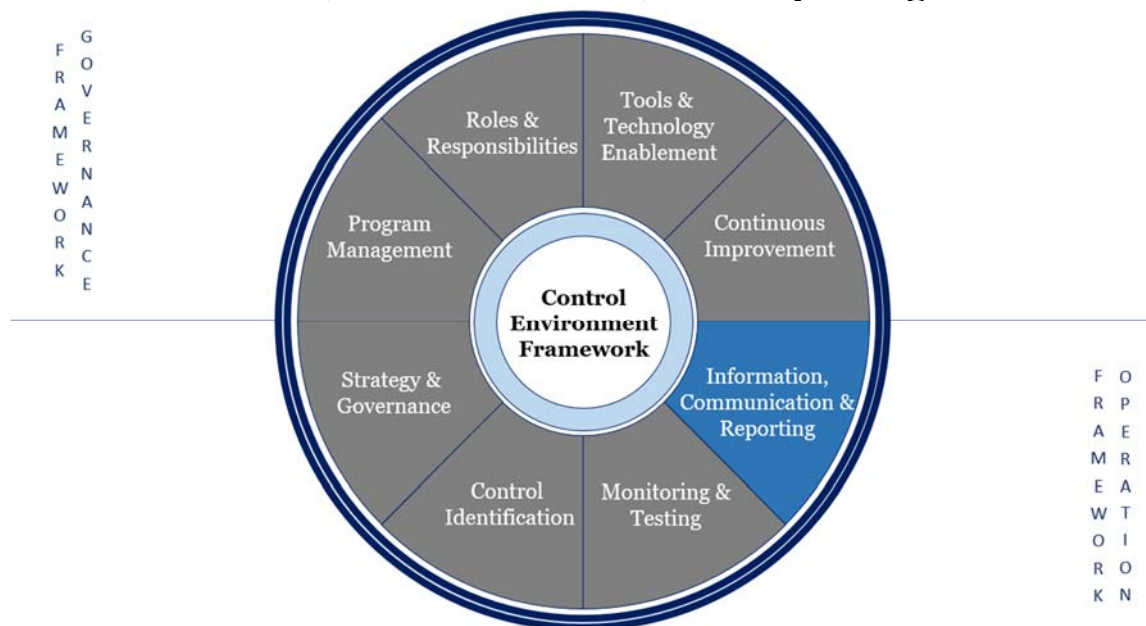
5.2.3 Phase 3 – Report Results

In the Reporting phase, assessment information is gathered by the Agency Internal Control Officer and Agency Leadership. The Statewide Internal Control Officer analyzes, reviews, and summarizes the results for the State Board of Internal Control and State Leadership. The Board and State Leadership evaluate the results, deficiencies, and respective corrective action for appropriateness, designated remediating parties, timeline, etc.

5.2.4 Phase 4 – Corrective Actions

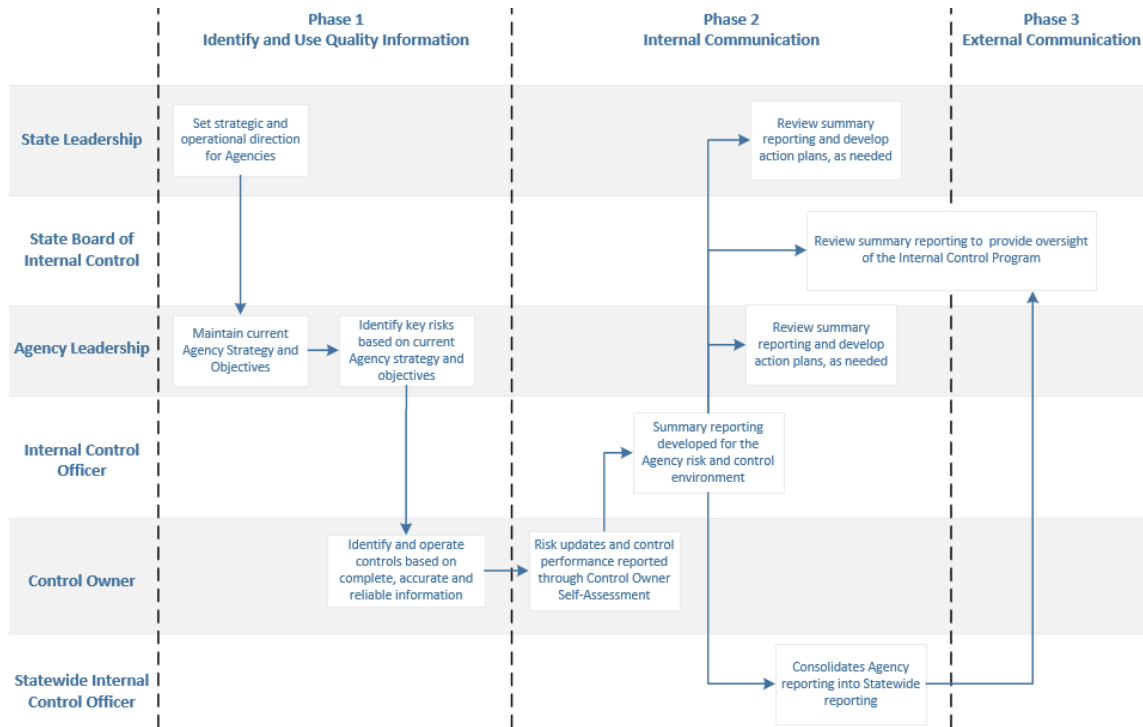
In this phase, Control Owners implement corrective action, as necessary, and the Agency Internal Control Officer monitors for proper and timely completion of corrective action. The corrective action includes resolution of the audit findings. The timing and key personnel are determined in order to remediate the deficiency, depending on the nature and severity of the issue. This process is determined upon leadership review of the audit result / summary of deficiencies.

6.0 Information, Communication, and Reporting



In a dynamic internal control environment, it is important that the Agency ensures accuracy and completeness of information, communication, and reporting flowing through the Internal Control Program. Refer to **Appendix 2** for the detailed COSO principles that comprise this component.

6.1 Information, Communication, and Reporting Process Flow



The Information, Communication, and Reporting process flow enables the Agency to bridge its strategy, risk assessment, and communications throughout the State. It sets State and Agency employees among three (3) phases of this flow:

6.1.1 Phase 1 – Identify and Use Quality Information

State Leadership sets the tone at the top and drives the importance of consistent direction for all Agencies. Agency Leadership ensures to drive that consistent messaging within the Agency, and identifies risks based on Agency strategy and objectives for Control Owners to operate the controls.

When conducting risk assessments, it is important for the Agency to validate that the information used in the internal control environment is accurate, complete, and derived from reliable sources. Two (2) types of information should be used as key input to the Internal Control Program:

1. Agency Strategy and Objectives
 - a. Used for identifying the right risks based on relevant Agency Priorities
 - b. Provides validation of the Control Owner Self-Assessment
 - i. Enables Control Owner to validate use of current Agency Strategy and Objectives to address Agency risks
2. Control Performance Data
 - a. Used to effectively perform controls to manage risk
 - b. Provides validation for Control Owner Self-Assessment
 - i. Enables Control Owner to validate use of complete, accurate, reliable data to perform controls

6.1.2 Phase 2 – Internal Communication

Control Owners operate the controls and provide the Agency Internal Control Officer with updates on risks, control performance, and end results through Self-Assessment activities. The Agency Internal Control Officer summarizes this information, and provides it to Agency Leadership, who in turn provides to State Leadership for review and development of required action plans.

- The goal of internal communication is to increase awareness of the risk and control environment to improve decision-making and allocation of resources. Primary stakeholders of internal communication include: Agency Control Owners, Agency Internal Control Officer, Agency Leadership, State Leadership, and the Statewide Internal Control Officer. Key internal communications include: Risk Assessment, Control Monitoring / Testing Results, Control Issues, and Corrective Action Plans.

6.1.3 Phase 3 – External Communication

The Agency Internal Control Officer summarizes the internal communications for Agency Leadership, who in turn provides to the State Board of Internal Control for review and development of required action plans.

- The goal of external communication is to provide transparency into the adoption and effectiveness of the Internal Control Program. The primary stakeholders of external communication include the State Board of Internal Control and the citizens of South Dakota. Key external communications include: Program Performance / Metrics, Status of Risk and Control Issues, and Status of Corrective Actions.

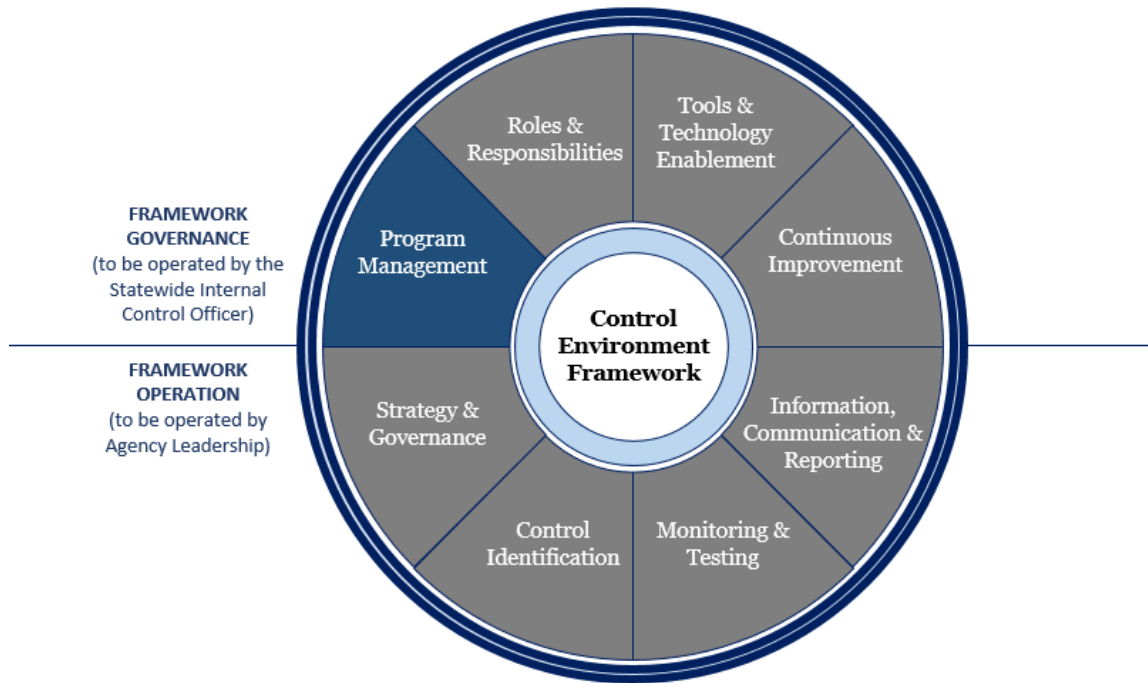
6.2 Translating Data into Quality Information

Reporting is key in the Monitoring and Testing phase. Many different stakeholders and goals rely on internal and external communication. The Agency and State should determine the totality and quality of all information to communicate, and how to communicate it through the chain from Control Owners and Performers to State Leadership and stakeholders.

The Statewide Internal Control Officer should be responsible for ensuring all information is communicated as intended by the guidelines within this Framework. The Statewide Internal Control Officer should ensure that external communications comply with State requirements and are within proper means of being disclosed, by providing guidelines around internal control communications, and metrics, frequency, monitoring, and status of corrective action.

7.0 Program Management

Program Management is the formal application of knowledge, skills, processes, and tools required for ongoing management and execution of the Statewide Control Environment Framework. This concept is particularly important, given the requirement to manage several related projects, with the intention of consistently improving organizational performance.



7.1 Establishment of Program Management Procedures

Program Management is the responsibility of the Statewide Internal Control Officer and will focus on standardizing the process across all Agencies to provide efficient execution of the program. The program procedures will formalize the processes and tools necessary, including the development of standard program timelines and development of the tools and templates necessary for execution.

7.2 Standard Reporting Activities

When assessing the standard cadence of reporting activities, it's important to understand the types of activities that will be taking place, and also the stakeholders that will be involved in the execution of the program.

For the purpose of implementing the Statewide Control Environment Framework, standard activities include:

- Risk and Control Self-Assessment
- Independent monitoring and testing
- Formal internal and external reporting milestones

Likewise, these activities involve multiple stakeholders in both execution and reporting. The stakeholders will include:

- State Board of Internal Control
- Statewide Internal Control Officer
- Agency Leadership
- Agency Internal Control Officers
- Control Owners
- Independent Testing Practitioners

While there are multiple activities and stakeholders, there are two key distinctions. The activities will essentially fall under the purview of Agency Program Management Reporting or Statewide Internal Control Officer Program Management Reporting and can be categorized by the frequency at which they will be reported.

7.2.1 Agency Program Management Reporting

Agency related activities will include the following, at the specified frequency:

- ***Annual Risk Assessment***
 - Review the depth of the Risk Assessment within Agencies against the following parameters:
 - Risk alignment to Agency objectives
 - Risk documentation includes identified owners and controls
 - Risk ratings are reviewed and updated/documented within the RCM

If an Agency is an outlier, the Statewide Internal Control Officer will identify what is needed to ensure compliance with the Risk Assessment process, and work with the agency leadership and agency ICO to remediate.

- ***Semi-Annual Control Self-Assessment***
 - Statewide Internal Control Officer will review Agency Self-Assessments to determine the level of adherence to the Framework (timeliness, completeness), and identify key themes to report to the Statewide Board of Internal Control.
- ***Quarterly Control Performance Testing***
 - Statewide Internal Control Officer will review the results of any independent audits completed during the prior quarter to identify key themes and activities requiring remediation to report to the Statewide Board of Internal Control. Review criteria will include:
 - Scope of review performed
 - Any findings or observations, and root causes associated with findings
 - Any correlation with other issues within specific agency or other agencies across the State of South Dakota
 - Identifying whether audit observations have remediation plans that address the risks and include timelines for completion.

7.2.2 Statewide Internal Control Officer Program Management Reporting

Statewide Internal Control Officer related activities will include the following, at the specified frequency:

- ***Annual Framework Plan and Report***
 - Develop the annual work plan which will include:
 - Selection of Agencies that will be reviewed for compliance against the Statewide Internal Control Framework (Agency's will be measured against the 17 COSO Principles which are highlighted in the Continuous Improvement section that follows)
 - Establish timeline for when each agency will conduct control self-assessments (performed in consultation with Agency ICOs)
 - Agency Reporting schedule for the upcoming year's Statewide Board of Internal Control meetings.

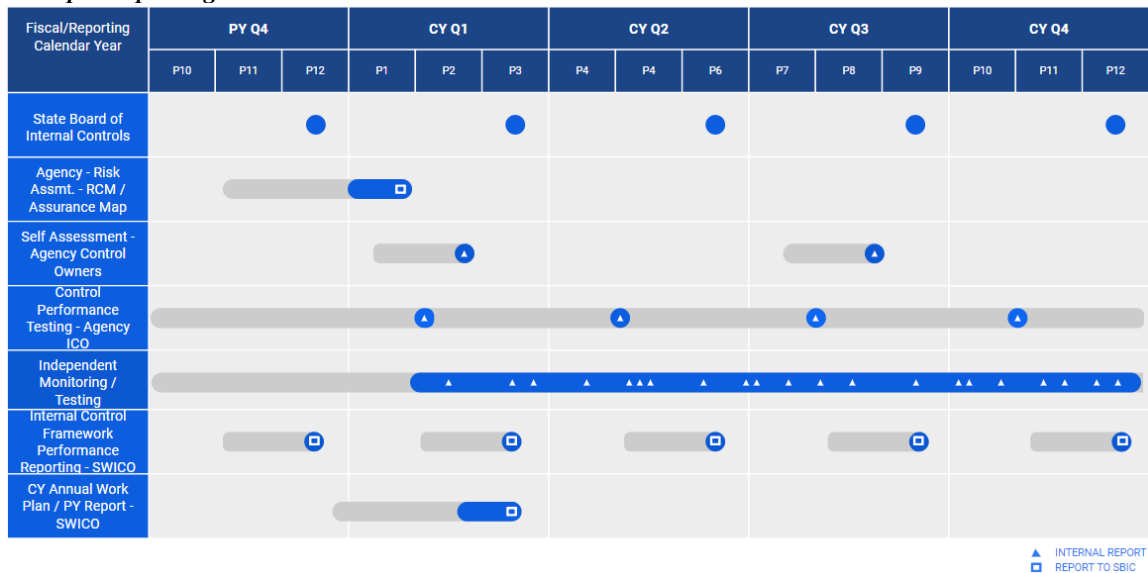
State of South Dakota: Internal Control Framework

- Each Agency will be responsible for reporting to the Statewide Board of Internal Control two times each fiscal year
- Summary of the results from the prior year's assessment of selected agency's against Statewide Internal Control Framework
- Summary of changes made to the Framework processes and its tools.
- **Quarterly Internal Control Framework Performance**
 - Report provided on the overall Framework performance across all Agencies. Report will include summaries of control monitoring and self-assessments, independent audit outcomes, and status of deficiency/remediation efforts. The report will include metrics, as deemed necessary, such as:
 - % Certifications Completed On-time
 - Control Deficiency % (self-reported)
 - Audit Results
 - Timeliness of Remediation Actions
 - % of High Risk w/Deficiencies

7.3 Concurrent Activities

It's important to note that effective Program Management allows for activities to operate concurrently. A sample schedule of the activities that may take place throughout a reporting year is shown below.

Example Reporting Calendar:



8.0 Tools and Templates

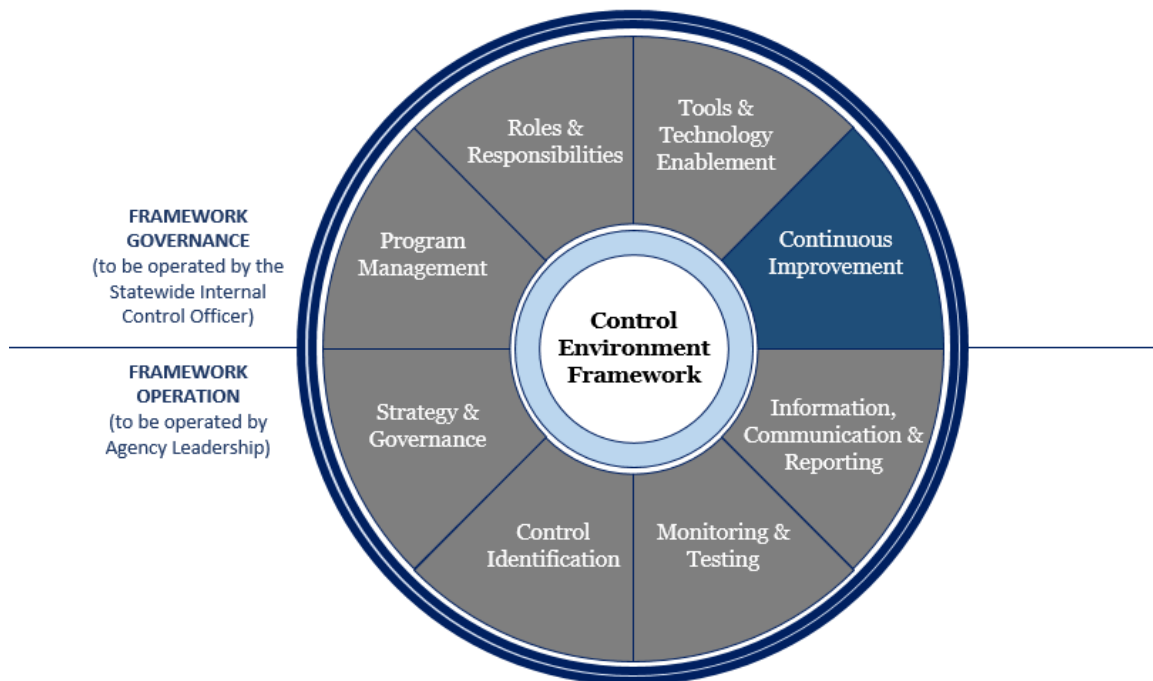
In order to effectively and efficiently manage a program with multiple concurrent activities, the development of tools and templates for collecting and reporting relevant information is required. Tools and templates will also allow for efficient monitoring of program effectiveness. At a minimum, standard tools and templates will include a system repository for document retention, and standardized reporting templates for all activities to be leveraged across the program.

It is the responsibility of the Statewide Internal Control Officer to incorporate feedback from Framework stakeholders including Agency ICOs, Control Owners, Agency Leadership, and Agency Management when

deciding on any changes to current templates, or the addition of new tools and templates to address the evolving nature of the Internal Control Framework.

9.0 Continuous Improvement

Just as organizations continue to evolve over time, there is an ever-evolving business landscape, especially when working within the bounds of a regulated environment. This drives the need for nimble responses to changing risks, which can be mitigated with the implementation of a Continuous Improvement process. A Continuous Improvement process will identify opportunities for improvement of the Statewide Internal Control Program.



9.1 Formalizing Continuous Improvement

In order to realize the true benefits of a Continuous Improvement process, the process must be formalized with a methodology that measures the effectiveness of the program and identifies opportunities for improvement. Improvement implies that key process measures are identified, defined, and tracked, and that established baselines show improvements, when changes are made to the process.

The Continuous Improvement process is an assessment of the State of South Dakota program against the COSO framework, and should include the following:

- Defined timing and activities necessary for periodic monitoring and assessment of program effectiveness
 - Program self-assessment against defined standards
 - Comparison to leading practices
- Defined responsibilities and scope of the periodic program assessment
- Defined reporting requirements for program assessment, including reporting to oversight committee(s)

9.2 Define Timing and Activities for Program Effectiveness Assessment

On an annual basis the State of South Dakota Internal Control Program will need to be assessed against the 17 COSO Framework Principles (see below). The annual review should include a review of Framework procedures, tools, responsibilities, and the level of adherence to the stated program requirements, and a comparison to leading practices. The assessment will capture:

- Evolution of the Framework over the course of the prior year
- Agency Feedback, Risk & Control Matrices, and Assurance Maps
- Remediation plan alignment to risks
- Statewide Internal Control Procedures

17 COSO Framework Principles:

Principle 1	Commitment to Integrity and Ethical Values	<ul style="list-style-type: none"> • Clear tone at the top across multiple layers of leadership • Consistent messaging / standards across Agencies
Principle 2	Exercise Oversight Responsibility	<ul style="list-style-type: none"> • State Leadership, Board and Agency oversight roles • Senior leadership accountability • Oversight of control deviations and remediation
Principle 3	Establish Structure, Responsibility and Authority	<ul style="list-style-type: none"> • Clear organizational structure • Layers of oversight accountability • Maintaining a defined Framework and program
Principle 4	Demonstrate Commitment to Competence	<ul style="list-style-type: none"> • Defined responsibilities support role assignments • Clear accountability for Agency Leadership to determine competence of Internal Control Officers and Control Owners
Principle 5	Enforce Accountability	<ul style="list-style-type: none"> • Accountability established at all levels • Visibility of performance to Agency Leadership, the Board and State Leadership
Principle 6	Specifies Suitable Objectives	<ul style="list-style-type: none"> • Agencies are reviewing objectives on a recurring basis
Principle 7	Identifies and Analyzes Risks	<ul style="list-style-type: none"> • Risks are directly tied to objectives
Principle 8	Assess Fraud Risk	<ul style="list-style-type: none"> • Fraud risks are considered as part of the agency risks assessments
Principle 9	Analyses and identifies significant change	<ul style="list-style-type: none"> • Agencies have procedures to incorporate mid-cycle operational / financial / compliance changes into their Risk and Control Matrix
Principle 10	Selects and Identifies Control Activities	<ul style="list-style-type: none"> • Each risk has control activities assigned to it • Control Owners are assigned to each Control Activity
Principle 11	Selects and develops general controls over technology	<ul style="list-style-type: none"> • Response rates are good for Self-assessment questionnaires • Evaluation of Results
Principle 12	Deploys through Policies and Procedures	<ul style="list-style-type: none"> • Reporting of Issues • Evaluation of Issues • Corrective Actions
Principle 13	Use Relevant Information	<ul style="list-style-type: none"> • Identification of Information Requirements • Relevant Data from Reliable Sources • Data Processed into Quality Information

Principle 14	Communication Internally	<ul style="list-style-type: none"> • Communication regarding Risks and Controls is occurring between Control Owners, Internal Control Officers, and Agency leaders • Appropriate Methods of Communication
Principle 15	Communicate Externally	<ul style="list-style-type: none"> • State Board of Internal Control Reporting is occurring • Appropriate Methods of Communication
Principle 16	Perform Monitoring Activities	<ul style="list-style-type: none"> • Response rates are good for Self-assessment questionnaires • Evaluation of Results
Principle 17	Evaluate Issues and Remediate Deficiencies	<ul style="list-style-type: none"> • Reporting of Issues • Evaluation of Issues • Corrective Actions

9.3 Define Responsibilities and Scope of Periodic Program Assessment

The annual review will be completed by the Statewide Internal Control Officer. The review will include the use of an annual survey and a sample of agency operations in order to assess effectiveness.

An annual survey will be completed by each Agency in order to understand what is working, and where improvements could be made. This process may also include one-on-one interviews for feedback from Agency Leadership as well. The surveying may cover topics ranging from methodology to tools, timing, or operations. Additionally, the Statewide Internal Control Officer will select a sample of Agency operations to review. This review will include assessment of adherence to the statewide program requirements.

Furthermore, as a best practice, the State will engage in an Independent Quality Assessment, once every 5 years. An independent quality assessment is provided by a third-party consultant. It assesses not only conformity with established COSO Principles, but also includes an assessment of the program's adherence to its Internal Control Framework Charter and written framework processes.

Not only does an Independent Quality Assessment provide independent perspective on risk coverage and control performance, it validates effectiveness of Internal Control processes, provides subject matter expertise related to specific risk and control areas, and compares the statewide program to leading practices.

9.4 Define Reporting Requirements for Program Assessment

As part of the Continuous Improvement process, annual reporting will occur, both internally and externally. All results gathered as part of the assessment process will be determined to be, either minor or significant findings. The Statewide Internal Control Officer will make this determination as part of the assessment process and also determine the necessary level of reporting for internal and external stakeholders.

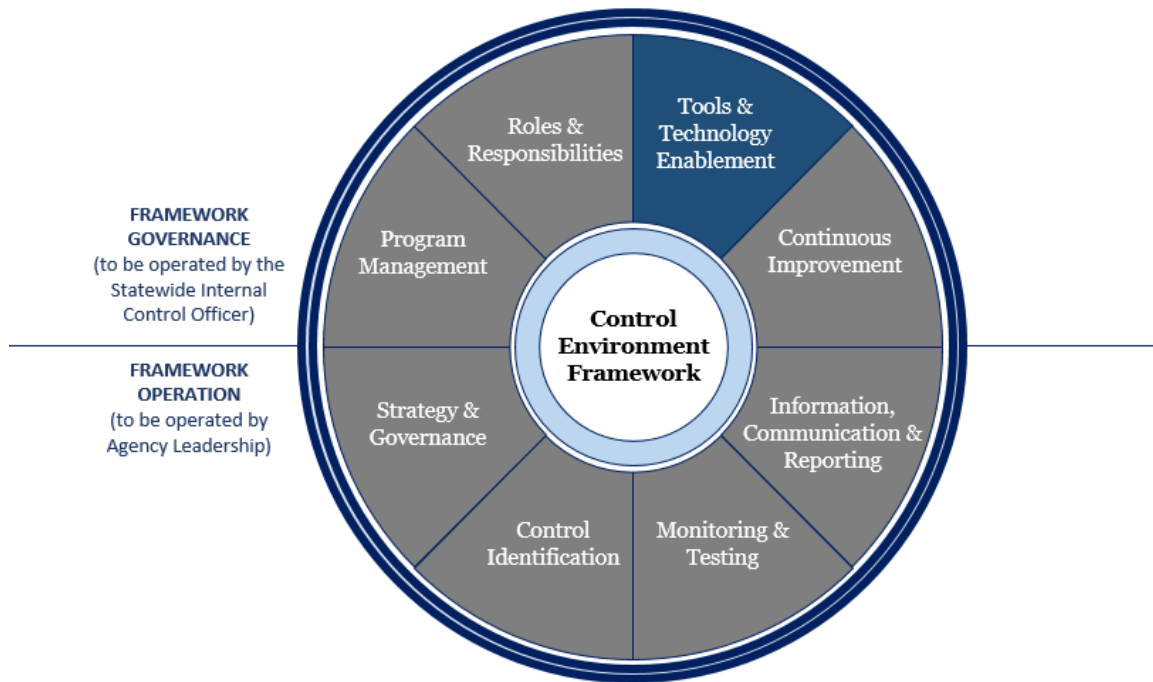
The assessment process will take approximately three weeks to complete by the Statewide Internal Control Officer. The overall results of the annual review will be reported to the State Board of Internal Controls, and more detailed results of findings will be communicated to Agency Leadership.

Any improvements noted as part of the Continuous Improvement program will be appropriately logged and tracked through to disposition by the Statewide Internal Control Officer. The Internal Control Officer will have the final approval for any changes deemed necessary for implementation. The log of changes to

methodology/operations will be retained for tracking of program development, and in order to see how changes are producing better outcomes.

10.0 Tools and Technology

Tools and Technology are an essential part of implementing the Statewide Internal Control Program. While Framework elements make up the foundational pillars of the program, tools and technology allow for successful, efficient execution.



10.1 Key Requirements

The availability of various tools and technology in today's world allows for endless possibilities. There are several tools and technology platforms, offered by multiple service providers that can be utilized. However, when identifying and assessing solutions that support the Statewide Internal Control Framework, the key considerations are as follows:

- Ability to maintain consistency across State Agencies (scalability)
- Ability for the technology to be adopted by key users (usability)
- Cost of ownership and licensing

To the extent possible, it's important to agree upon a technology solution that supports the long-term needs of the program, while understanding how to leverage technology in the near-term as well.

10.2 Current Technology Platform

While the State assesses long-term need and works toward a more integrative and efficient technological solution, Shared Drives and SharePoint Sites will be utilized to house and share information for the Internal Control Framework in the near-term.

Each Agency will have the opportunity to select the best option, based on the number of Control Owners/Internal Control Officers, version control requirements, and accessibility across its organization.

The Statewide Internal Control Officer has created and owns an Internal Control Framework SharePoint Site that is utilized to provide the latest versions of Framework tools, and maintain process documentation. The Statewide Internal Control Officer will notify Agencies, via regular email communication, when changes are made, or when tools are added, so they have the latest versions. Ultimately, each Agency will be responsible for submitting its updated tools/results to the Statewide Internal Control Officer's SharePoint Site for summarized reporting to the State Board of Internal Control.

10.3 Access Requirements

Access to the various tools and technology platforms utilized for the State's Internal Control Framework and Reporting needs to be managed in a way that restricts the access to only required users, and provides stakeholders with the most up-to-date information. This process needs to ensure that change management procedures are in place for any updates of tools or technology, and that version control restrictions are in place as well.

10.4 Current Tools

Through the development of the Statewide Internal Control Framework, the Statewide Internal Control Officer has developed a number of tools to be leveraged by the State Agencies. These tools include:

- Risk Prioritization Criteria
- Assurance Map / Risk and Controls Matrix (RCM)
- Control Self-Assessment
- Testing Results Reporting Template

10.4.1 Risk Prioritization Criteria

The Risk Prioritization Criteria provides a common methodology to determine which risks have the potential to significantly impact Agency objectives. Please refer to the “Prioritizing Risks” section of the “Control Identification Framework” for further details.

Risk Category	Low (1)	Medium (2)	High (3)	Critical (4)
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.

10.4.2 Assurance Map / Risk and Controls Matrix (RCM)

- Submitted annually by the Agency Internal Control Officers after Agency Risk Assessment has taken place

- Agencies will then publish to their Internal Control Framework SharePoint Sites / Shared Drives to facilitate updates as risks evolve
- As tools are updated throughout the year by agencies, they will be sent to the Statewide Internal Control Officer's SharePoint on a monthly basis

An Assurance Map is a matrix tool that should be developed, used, and maintained by the Agency Internal Control Officers to monitor the coverage and track high and critical risks, and the functions that provide independent audit coverage for each of those risks. Please refer to the "Assurance Map" section of the "Monitoring & Testing, Information, Communication, & Reporting Framework" for further details.

Assurance Map Example:

State of SD: Agency-Level Assurance Map Example

Risk	Control	Risk Rating	Monitoring	Independent Audit					
				DLA	Agency Function 1	Agency Function 2	Federal Agency 1	Federal Agency 2	ICO
Operational									
Report Card information is developed based on inaccurate data collected related to school performance	Data collected from schools is reconciled to source documents by the Manager of Report Card Reporting to validate accuracy.	Critical	X						
Risk 2	Control 2	Medium	X		X				
Risk 3	Control 3	Medium	X						
Financial									
Risk 1	Control 1	High	X	X					
Risk 2	Control 2	Medium	X	X					
Risk 3	Control 3	Low	X	X					
Compliance									
Risk 1	Control 1	Critical	X						
Risk 2	Control 2	Low	X				X	X	
Risk 3	Control 3	Medium	X		X		X	X	

A Risk and Controls Matrix is used to provide standardized documentation of each control within the State's Internal Control Program in order to support understanding of the control by Control Performers, while also supporting consolidated monitoring, testing, and reporting. Please refer to the "Design Controls" section of the "Control Identification Framework" for further details.

Risk and Controls Matrix Example:

Risk and Control Matrix									
Agency	Agency Objectives	Risk Objectives	Risk	Risk Rating	Control #	Control Activity	Control Performance Details	Frequency	Responsible Person
Budget Analysis Office	Establish efficient, effective, and cost of state funds	Expenditures are incurred within the allocated budget for each Agency and Office	Expenditures are incurred which exceed the allocated budget	High	FC01	On a monthly basis, Office leadership is responsible for reviewing budget for actual and projected expenditures to ensure no potential budget overruns. Existing or anticipated overruns should be discussed with Budget Analysis Office management to determine needed actions.	Budget for actual reporting is determined for the Budget Analysis Office and distributed to Office leadership within the first 5 days of the fiscal month. Office leadership is responsible for reviewing the budget for actual reporting to identify: <ul style="list-style-type: none"> Discrepancies with their understanding of the current budget Project budget overruns Projected budget savings Variances to budget should be documented by Office leadership and reported to the Budget Analysis Office by the 15th day of the calendar month. All variances should be thoroughly explained with clear action items for resolution.	Monthly	Budget Analyst

10.4.3 Controls Self-Assessment

- Agency Internal Control Officers will consolidate self-assessment results and semi-annually provide the Statewide Internal Control Officer with, both a summary of Self-Assessments, and the Agency Master File (Excel spreadsheet)
- Submitted by the Agency Internal Control Officers semi-annually one month prior to State Board of Internal Control meeting
- Due to the staggered nature in which Agencies will report to State Board of Internal Control, the Statewide Internal Control Officer will receive Control Self-Assessments from half of all Agencies each quarter

Control Self-Assessments will provide a survey that allows Control Owners to assess various aspects of the controls for which they oversee. Please refer to the "Self-Assessment" section of the "Monitoring & Testing, Information, Communication, & Reporting Framework" for further details.

Control Self-Assessment Example:

The Control Self-Assessment is divided into six categories as follows:

- I. General Controls
- II. Cash Controls
- III. Operating Expenditures
- IV. Personnel Expenditures and Travel
- V. Equipment and Computer Security
- VI. Ethics

I. GENERAL CONTROLS

	Question	Yes	No	N/A
1.	The department performs a monthly reconciliation/review of its Comptroller Statements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	The department performs a monthly reconciliation/review of its payroll reports.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	Unreconciled financial transactions are researched and corrected in a reasonable period of time.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	The number and scope of department authorized signers are reasonable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10.4.4 Testing Results Reporting Template

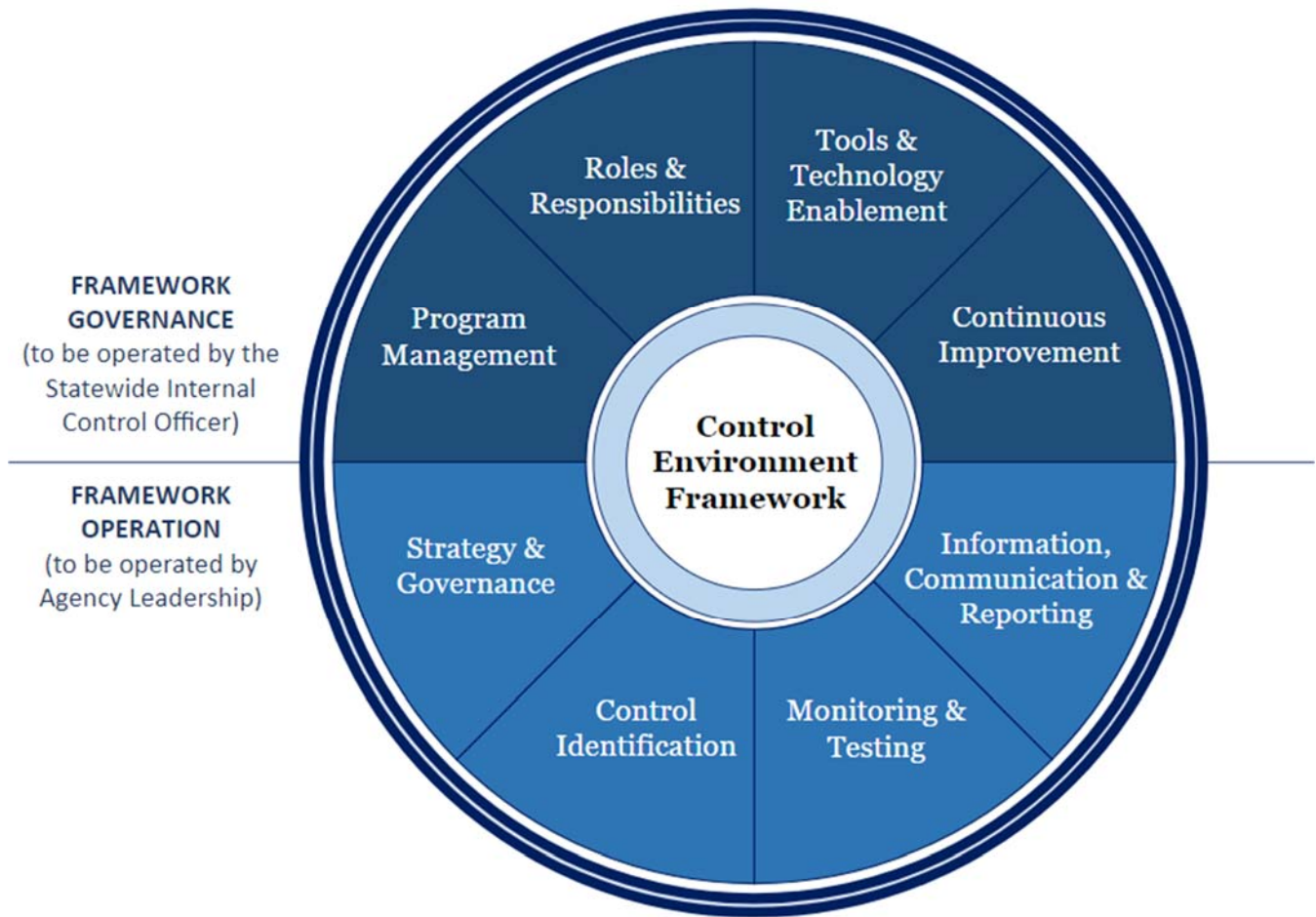
A standardized reporting template will facilitate the Statewide Internal Control Officer's analysis and review of the Agency testing, and allow for efficient summarization of the results for the State Board of Internal Control and State Leadership.

The reporting of testing results from the Agency Internal Control Officer should provide a summary report on any control testing results, and should be submitted on a quarterly basis, one month prior to the State Board of Internal Control meeting. The summary should include items, such as:

- Objective and scope of review
- Overall assessment
- Observations / findings
- Remediation plans agreed to by Agency leadership
- Due date for remediation plan implementation
- Updates for ongoing remediation efforts of prior assessments (i.e. if due dates have been changed, the supporting rationale for the change)

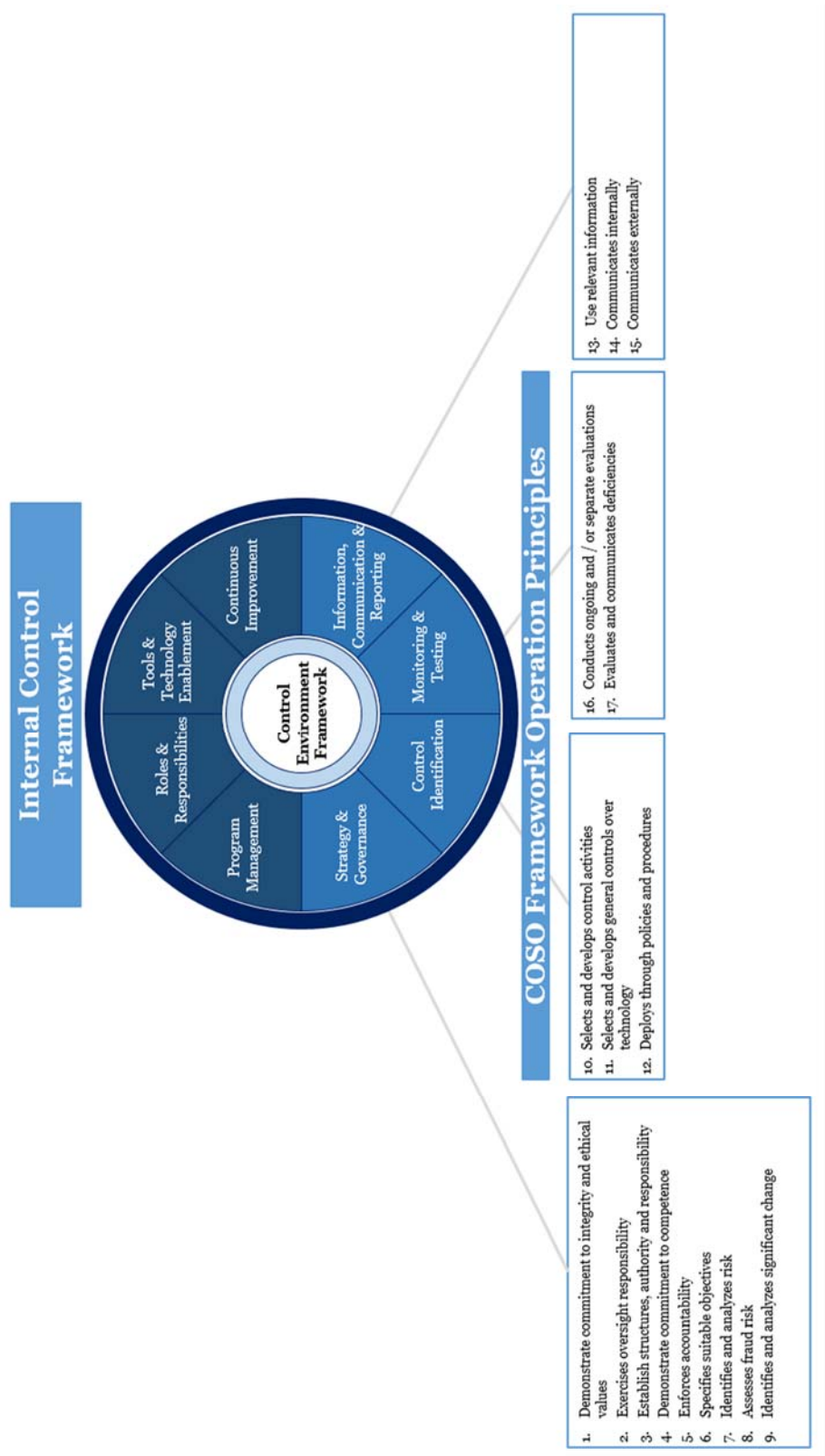
APPENDIX I

Standards of the Statewide Framework



APPENDIX 2

Internal Control Components and Principles - Diagram



APPENDIX 3

Internal Control Components and Principles - Detail

The five (5) COSO components and their principles are outlined below.

- **Control Environment (5 principles)** – The foundation for the internal control system to provide the discipline and structure for controls
- **Risk Assessment (4 principles)** – Conduct an assessment of the risks and developing appropriate risk responses for the Agency to achieve its objectives.
- **Control Activities (3 principles)** – Actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.
- **Information &, Communication (3 principles)** – The quality information leadership and state employees communicate and use to support the internal control system.
- **Monitoring (2 principles)** – Activities leadership establishes and operates to access the quality of performance over time and timely resolve deficiencies of audits / reviews.

Control Environment This component represent the foundation, discipline, and structure for internal controls. The five (5) detailed principles that comprise these components are as follow:

Principle 1: Commitment to Integrity and Ethical Values

The oversight body and management should demonstrate a commitment to integrity and ethical values.

- Clear tone at the top across multiple layers of leadership
- Consistent messaging / standards across Agencies

Principle 2: Oversight Responsibility

The oversight body should oversee the entity's internal control system.

- State Leadership, State Board of Internal Controls, and Agency Leadership oversight roles
- Agency Leadership accountability
- Oversight of control deviations and remediation
- Performance monitoring to address control issues
- Defined frequency and requirements for oversight
- Layers of visibility for control issues and remediation

Principle 3: Structure, Responsibility, Authority

Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.

- Clear organizational structure
- Layers of oversight accountability
- Maintaining a defined Framework and program

Principle 4: Commitment to Competence

Management should demonstrate a commitment to recruit, develop, and retain competent individuals.

- Defined responsibilities support role assignments
- Clear accountability for Agency Leadership to determine competence of ICOs and Control Owners

Principle 5: Enforce Accountability

Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

- Accountability established at all levels
- Visibility of performance to Agency Leadership, the Board and Governor

Control Identification Effective policies and procedures should set an effective internal control environment within the Agency. The Agency should leverage seven (7) principles through this process:

Principle 6: Define Objectives and Risk Tolerances

Management should define objectives clearly to enable the identification of risks and define risk tolerances.

- Definitions of Objectives and Risk Tolerances

Principle 7: Identify, Analyze, and Respond to Risks

Management should identify, analyze, and respond to risks related to achieving the defined objectives.

- Identify, analyze, and respond to risks related to achieving the defined objectives

Principle 8: Assess Fraud Risk

Management should consider the potential for fraud when identifying, analyzing, and responding to risks.

- Types of Fraud, Fraud Risk Factors, Response to Fraud Risks

Principle 9: Identify, Analyze, and Respond to Change

Management should identify, analyze, and respond to significant changes that could impact the internal control system.

- Identify, analyze, and respond to significant changes that could impact the internal control system

Principle 10: Design Control Activities

Management should design control activities to achieve objectives and respond to risks.

- Response to Objectives and Risks, design of appropriate types of Control Activities and at different levels, segregation of duties

Principle 11: Design Activities for the Information System

Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

- Design the entity's information system and related control activities to achieve objectives and respond to risks

Principle 12: Implement Control Activities

Management should implement control activities through policies.

- Documentation of responsibilities through policies, periodic review of control activities

Monitoring & Testing The Agency should leverage two (2) principles through this process:

Principle 16: Perform Monitoring Activities

Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

- Establishment of a Baseline
- Internal Control System Monitoring
- Evaluation of Results

Principle 17: Evaluate Issues and Remediate Deficiencies

Management should remediate identified internal control deficiencies on a timely basis.

- Reporting of Issues
- Evaluation of Issues
- Corrective Actions

Information, Communication, & Reporting The Agency should leverage three (3) principles through this process:

Principle 13: Use Quality Information

Management should use quality information to achieve the entity's objectives.

- Identification of Information Requirements
- Relevant Data from Reliable Sources
- Data Processed into Quality Information

Principle 14: Communicates Internally

Management should internally communicate the necessary quality information to achieve the entity's objectives.

- *Communication throughout the Entity*
- *Appropriate Methods of Communication*

Principle 15: Communicates Externally

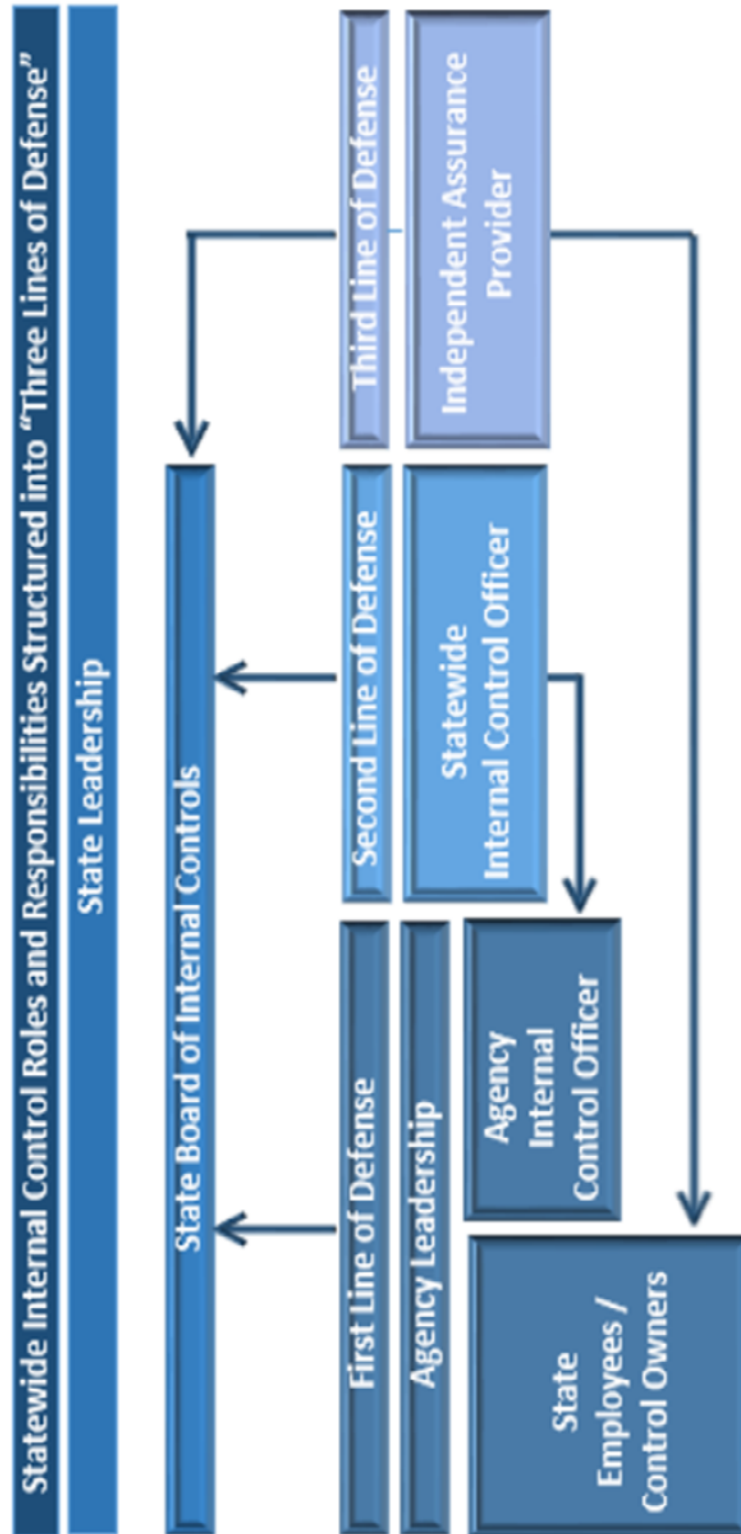
Management should externally communicate the necessary quality information to achieve the entity's objectives.

- *Communication with External Parties*
- *Appropriate Methods of Communication*

Principle 1	Commitment to Integrity and Ethical Values	<ul style="list-style-type: none"> • Clear tone at the top across multiple layers of leadership • Consistent messaging / standards across Agencies
Principle 2	Exercise Oversight Responsibility	<ul style="list-style-type: none"> • State Leadership, Board and Agency oversight roles • Senior leadership accountability • Oversight of control deviations and remediation
Principle 3	Establish Structure, Responsibility and Authority	<ul style="list-style-type: none"> • Clear organizational structure • Layers of oversight accountability • Maintaining a defined Framework and program
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APPENDIX 4

Three Lines of Defense



APPENDIX 5

Communication Requirements

	Key Individual Communication Requirements
Annual	<p><u>State Leadership → Statewide</u></p> <ul style="list-style-type: none"> ● Establish tone of internal control by communicating the importance of Framework & Commitment to Internal Controls (within one month of fiscal year start) ○ Include focus areas based on prior year results, performance, metrics ● Communicate internal Control Performance and Priorities <p><u>Board → State Leadership</u></p> <ul style="list-style-type: none"> ● Create annual work plan
Quarterly	<p><u>Statewide and Agency ICO → Board</u></p> <ul style="list-style-type: none"> ● Monitor Control Owner Certifications, Summarize Statewide and Agency Reporting (upon Control Owner completion of certification) <p><u>Board → State Leadership</u></p> <ul style="list-style-type: none"> ● Review Communication Materials for Consistent Messaging/Tone (prior to release of Board communication to State) ● Review Summary Reporting and Approve / Recommend Actions (after Agency preparation of Summary Reporting, and prior to Remediation implementation) ● Communicate summary of Internal Control Program Performance (within two weeks of the start of quarter start) ○ Include forward-looking areas of focus/priority <p><u>State Leadership → Agency Leadership</u></p> <ul style="list-style-type: none"> ● Monitor Training Metrics (after each Agency has conducted training) <p><u>Agency Leadership → Board</u></p> <ul style="list-style-type: none"> ● Receive Summary Reporting and approve remediation actions <p><u>Agency Leadership → Agency Staff</u></p> <ul style="list-style-type: none"> ● Communicate Importance of the Framework and Commitment to Internal Controls (within two weeks of quarter start) ● Receive Summary Agency Reporting and Approve Remediation Actions (after Control Owner preparation of Summary Reporting, and prior to Remediation implementation) <p><u>Control Owner → Agency ICO</u></p> <ul style="list-style-type: none"> ● Certify control environment (within one week subsequent quarter end)

Ad-hoc	<p><u>State Leadership, State Board of Internal Control, Agency Leadership, Agency ICOs → Agency Staff</u></p> <ul style="list-style-type: none"> ● Address significant changes or performance issues (based on triggers, below) <ul style="list-style-type: none"> o Five (5)/greater deficiencies per year; new risks unaddressed, personnel performance issues, etc. ● Administer, receive training (based on triggers, below) <ul style="list-style-type: none"> o Five (5)/greater deficiencies per year; new risks unaddressed, new personnel, personnel performance issues, etc. <p><u>Agencies → Statewide ICO</u></p> <ul style="list-style-type: none"> ● Consult on Risk and Control Concepts (based on triggers, below) <ul style="list-style-type: none"> o Questions, review, approval, knowledge sharing <p><u>Statewide ICO → Statewide</u></p> <ul style="list-style-type: none"> ● Drive Consistent Messaging (based on triggers, below) <ul style="list-style-type: none"> o Triggers include Agencies/Control Owners not adhering to Framework Guidelines, new State Leadership/Board Members/Agency ICOs <p><u>Control Owner → Agency ICO</u></p> <ul style="list-style-type: none"> ● Report deficiencies and remediation action (as part of control testing procedures, progress with remediation efforts, issues with remediation, etc.)
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APPENDIX 6

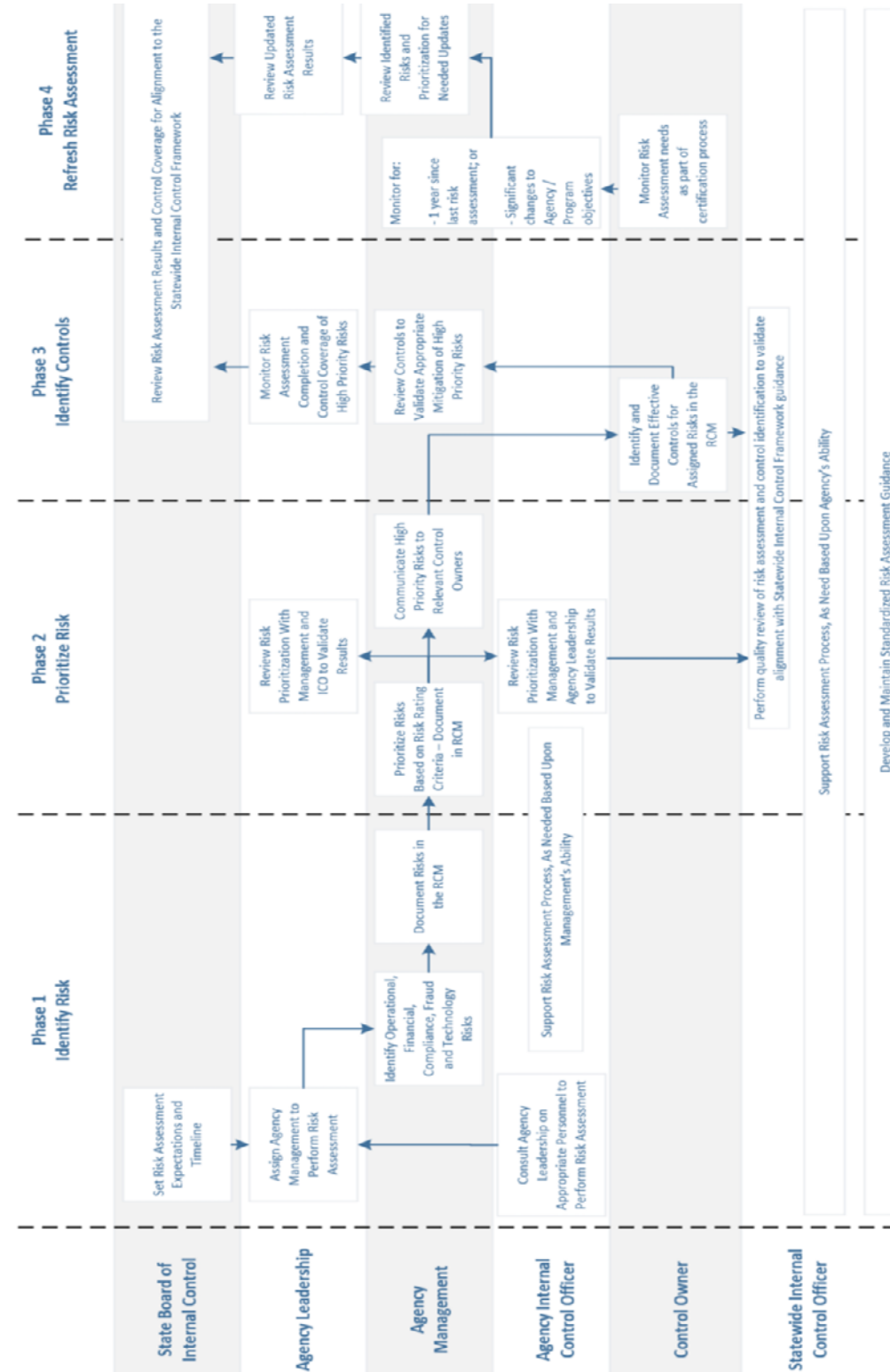
Statewide Training Plan

Training Course	Training Attributes	Training Provider	Frequency	Participants
Internal Control Program Overview <i>Refer to respective training document.</i>	Overview: Overview of the Framework, tools, roles and responsibilities Duration: 2 hours Key Points: <ul style="list-style-type: none"> Development of the Statewide Internal Control Program Internal Control Program at the State Program Management Internal Control Tools Internal Control responsibilities (<i>communication, training, accountability of program</i>) 	Agency Internal Control Officers	<u>Ad-hoc</u> Program Overview training should be administered as needed, and based on the addition of new personnel to the internal control program (<i>within one month of hire date/date of start in role</i>)	Personnel new to the internal control program (all roles and levels)
Advanced Internal Control Concepts <i>Refer to respective training document.</i>	Overview: Deeper understanding of risk and control concepts Duration: 2 hours Key Points: <ul style="list-style-type: none"> Risk Identification Methods Types of Risk Risk Prioritization Risk Assessment Process Categorization of Control Activities Monitoring Risk Reporting Risk Results 	Statewide Internal Control Officer	<u>Ad-hoc</u> Advanced Internal Control Concepts training should be administered as needed, and based on addition of new ICOs and/or specially selected Control Owners, as determined by Agency ICO (within one month of new position date / one month of determination by Agency ICO)	ICOs new to the role and select Control Owners
Control Owner Responsibilities <i>Refer to respective training document.</i>	Overview: Risk assessment, control identification, control performance and certification Duration: 3 hours Key Points: <ul style="list-style-type: none"> Adhering to State Internal Control Policies and Procedures Taking ownership of the internal control program (<i>conducting the Risk Assessment, Identifying/Documenting Controls, Performing Controls</i>) Certifying the control environment Reporting deficiencies Remediating deficiencies 	Agency Internal Control Officers	<u>Ad-hoc</u> Control Owner Responsibilities training should be administered as needed, and based on addition of new control owners, or those with performance issues (within one month of hire date / one month of performance evaluation)	New Control Owners and Controls Owners with performance issues

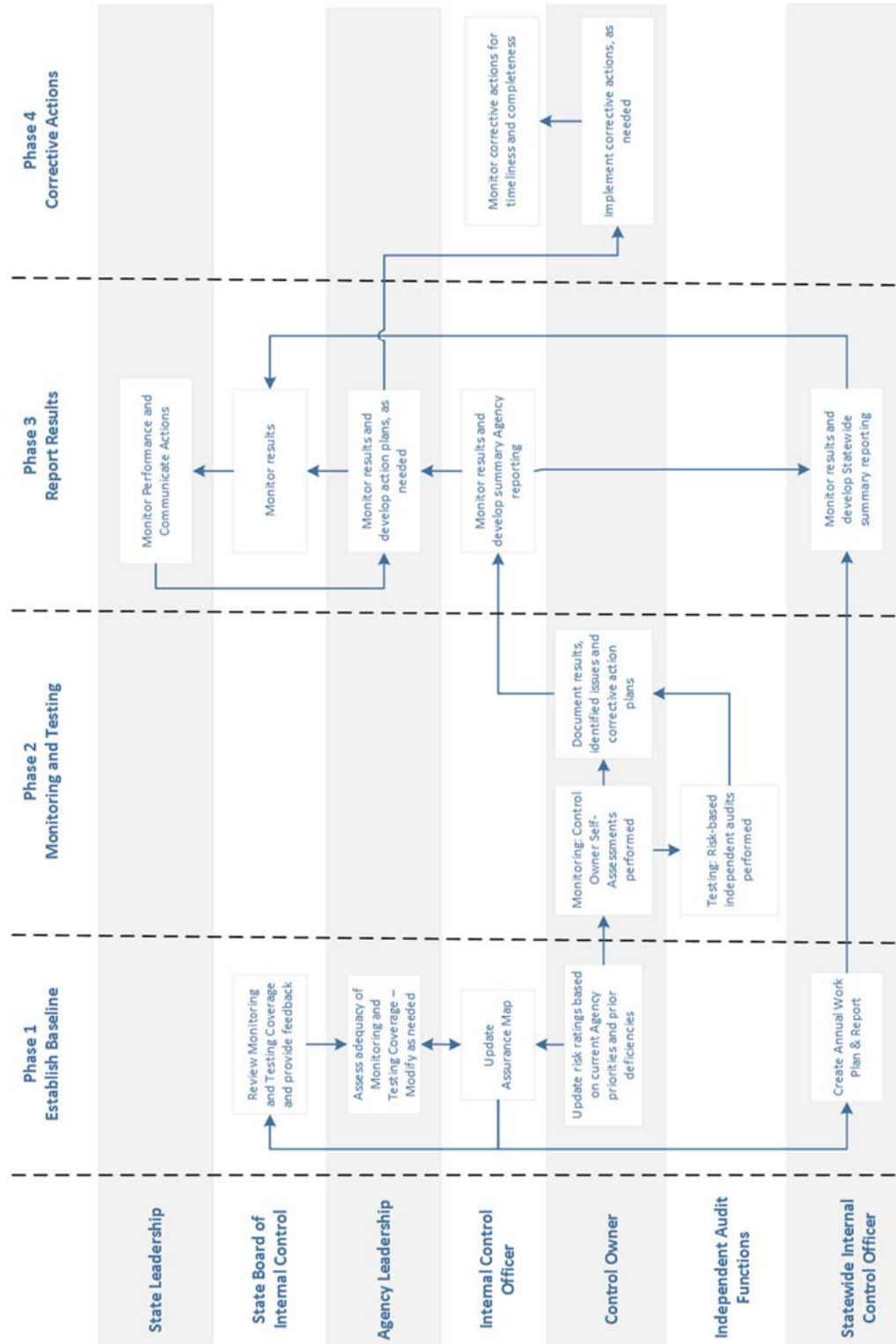
<p><i>Internal Control Officer Responsibilities</i></p> <p><i>Refer to respective training document.</i></p>	<p>Overview: Introduction to processes and tools used to perform ICO responsibilities</p> <p>Duration: 2 hours</p> <p>Key Points:</p> <ul style="list-style-type: none"> • Communicating/Driving importance of internal controls • Administering training internal over the control program • Guiding the team through the internal control program requirements • Monitoring Control Owner certification • Agency internal control reporting 	<p>Statewide Internal Control Officer</p>	<p><u>Ad-hoc</u> ICO Responsibilities training should be administered as needed, and based on addition of new ICOs and/or those with performance issues (<i>within one month of hire date / one month of performance evaluation</i>)</p>	<p>New ICOs and ICOs in agencies with performance issues</p>
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APPENDIX 7 Process Maps

CONTROL IDENTIFICATION

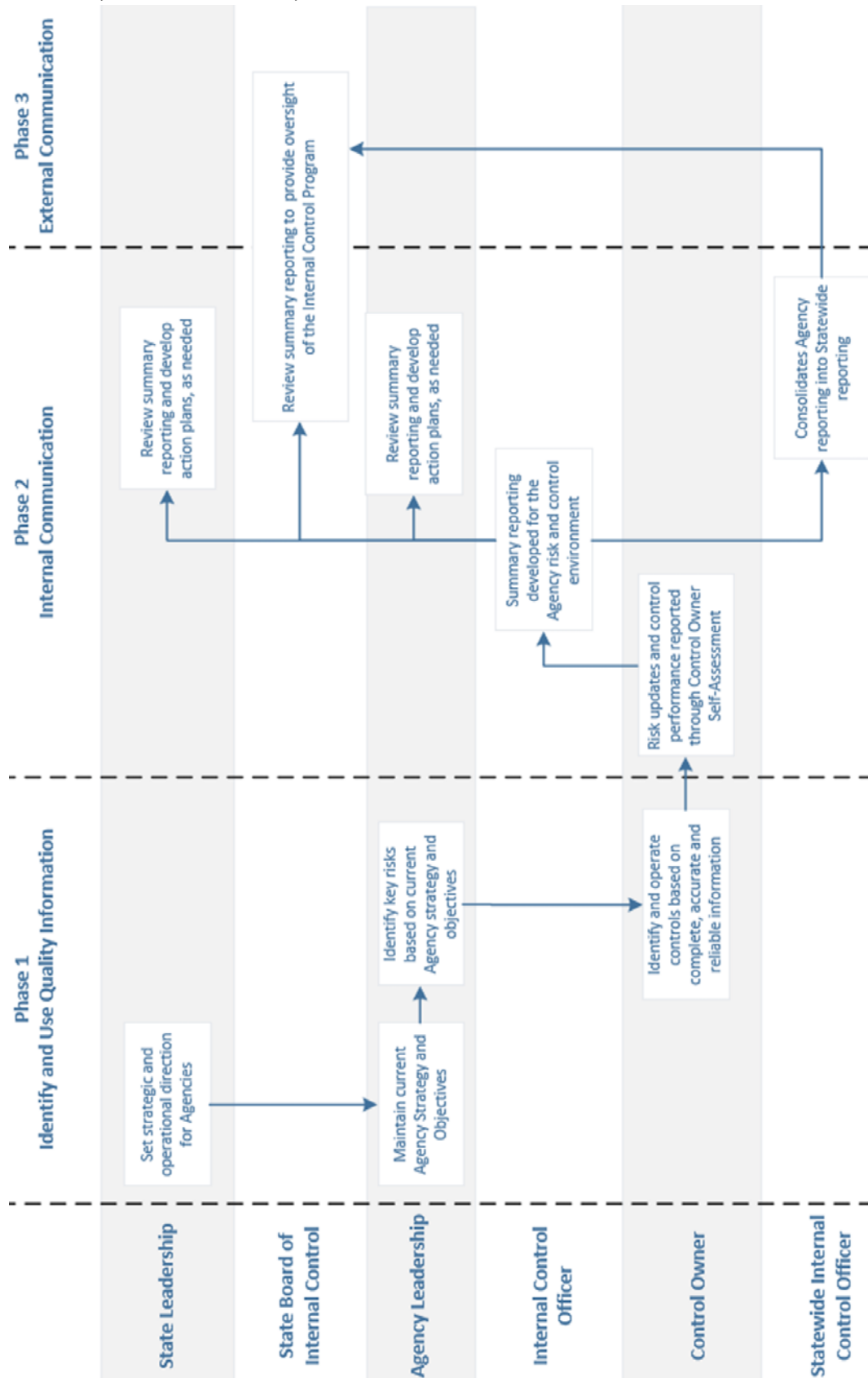


MONITORING AND TESTING



State of South Dakota: Internal Control Framework

INFORMATION, COMMUNICATION, REPORTING



APPENDIX 8

Impact and Likelihood Rating Guidance, Heatmap

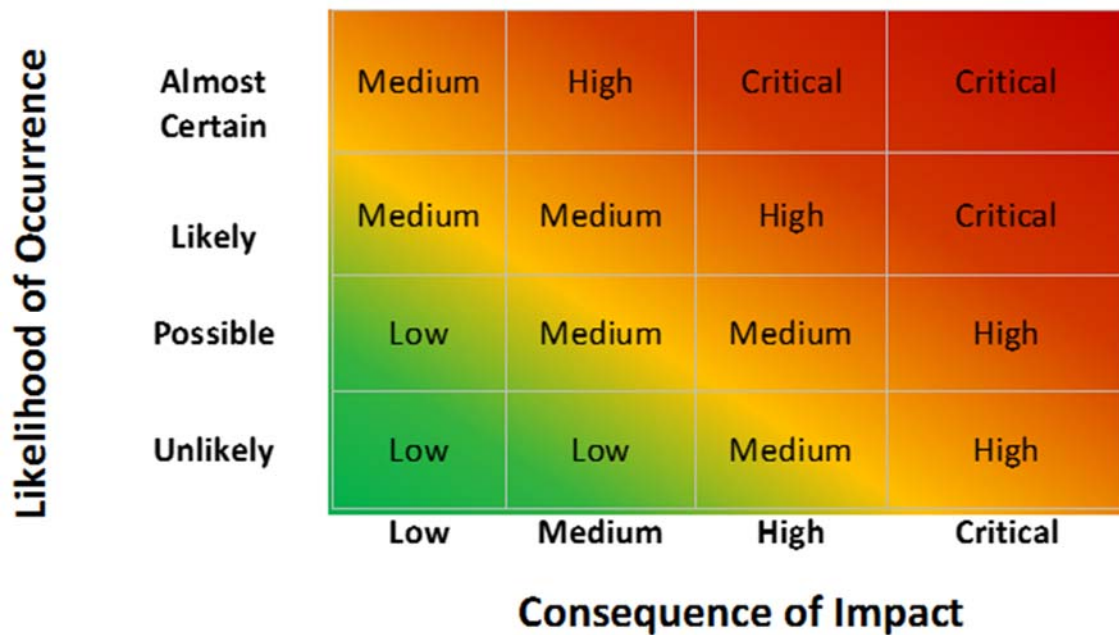
IMPACT RATING GUIDANCE

Risk Category	Low (1)	Medium (2)	High (3)	Critical (4)
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 GUIDANCE

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

LIKELIHOOD HEATMAP



APPENDIX 9

Assurance Map, Assurance Guidelines, Control Assurance

ASSURANCE MAP

State of SD: Agency-Level Assurance Map Example

Risk			Control	Risk Rating	Monitoring	Independent Audit					
						DLA	Agency Function 1	Agency Function 2	Federal Agency 1	Federal Agency 2	ICO
Operational	Report Card information is developed based on inaccurate data collected related to school performance		Data collected from schools is reconciled to source documents by the Manager of Report Card Reporting to validate accuracy.	Critical	X						
		Risk 2	Control 2	Medium	X		X				
		Risk 3	Control 3	Medium	X						
Financial			Control 1	High	X	X					
			Control 2	Medium	X	X					
			Control 3	Low	X	X					
Compliance			Control 1	Critical	X						
			Control 2	Low	X				X	X	
			Control 3	Medium	X			X		X	X

ASSURANCE GUIDELINES

Assurance Guidelines

	Low Risk	Medium Risk	High Risk	Critical Risk
Control Owner Self-Assessment*	Required	Required	Required	Required
Independent Auditing**	Not Required	Not Required***	Required****	Required*****

* Conducted on Semi-annual frequency, at staggered schedule / rotational basis among all Agencies

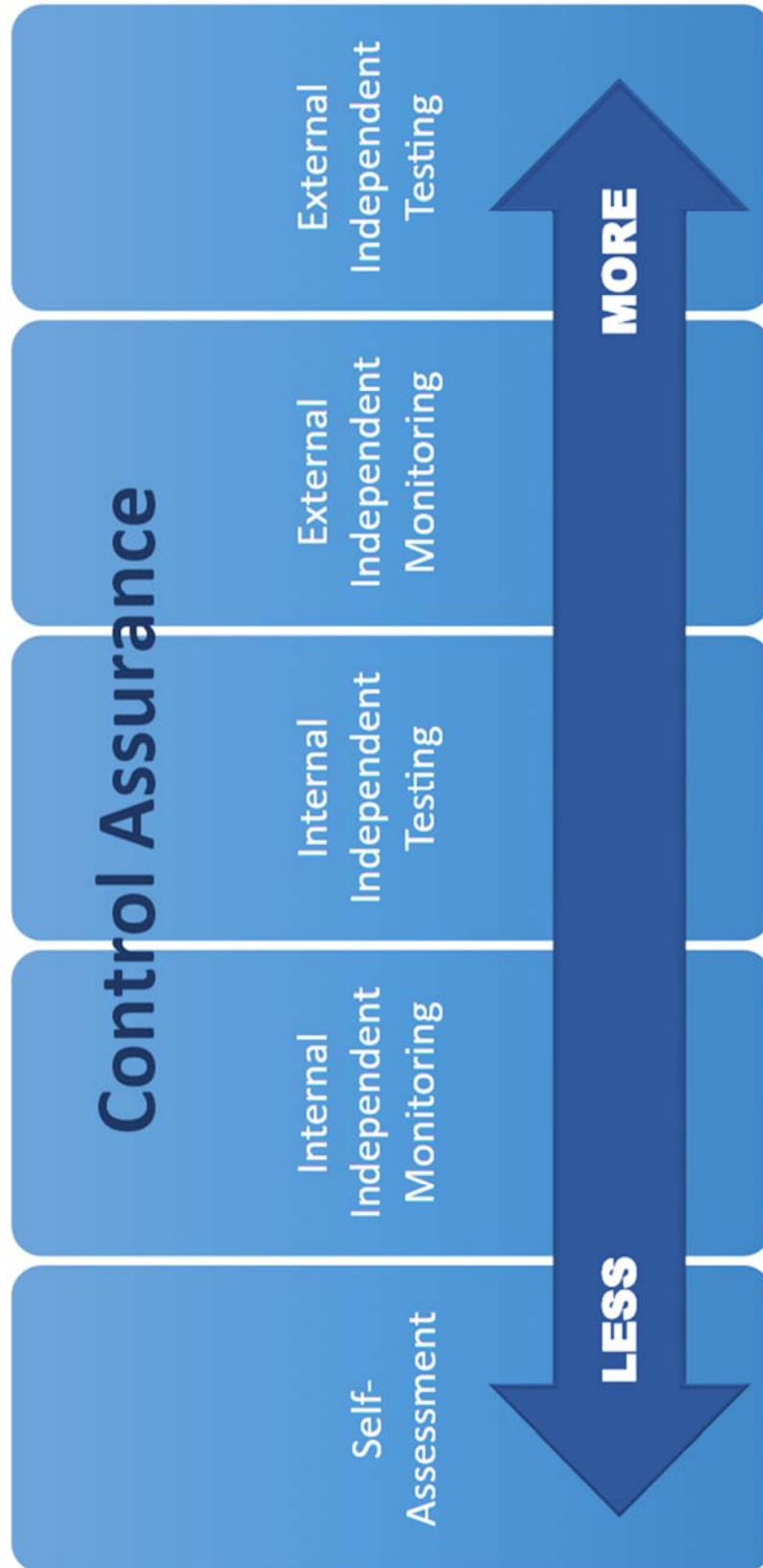
** Frequency determined by Agency

*** Rotational assurance strongly recommended

**** Deviations reported to Agency Leadership

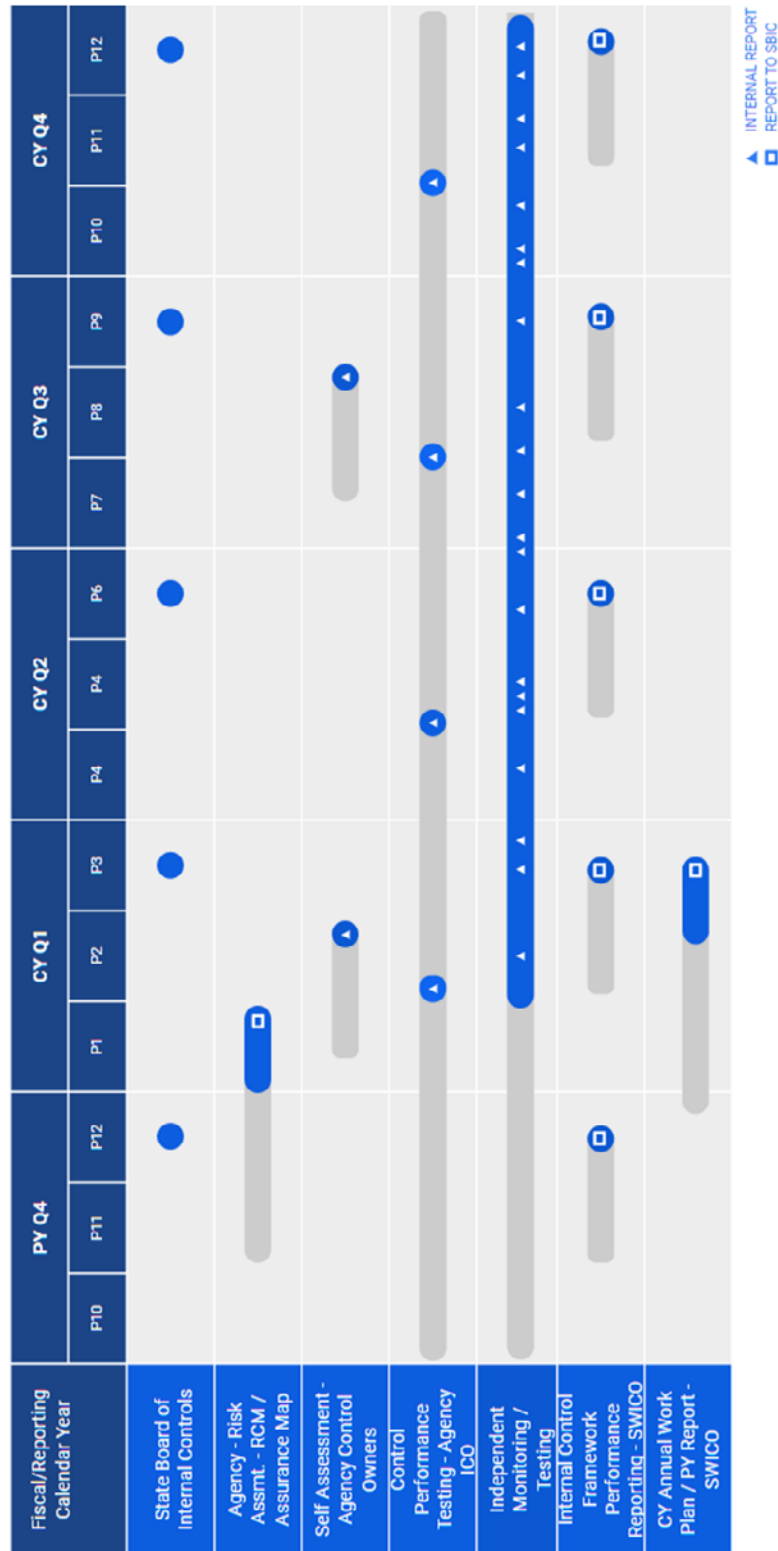
***** Deviations reported to Board

CONTROL ASSURANCE



APPENDIX 10

Sample Reporting Calendar



APPENDIX 11

Sample Risk and Control Matrix

Risk and Control Matrix									
Agency	Agency Objective	Unit Objective	Risk	Risk Rating	Control #	Control Activity	Control Performance Details	Frequency	Supporting Evidence
Budget Analysts Office	Ensuring efficient allocation and use of State funds	Expenditures remain within the allocated budget for each Agency and Office	Expenditures are incurred which exceed the allocated budget	High	1.01	On a monthly basis, Office leadership is responsible for reviewing budget to actual and fiscal year projections to assess any potential budget overruns and to determine if any corrective actions are needed. With Budget Analysts Office management to determine needed actions	Subject to actual reporting to be provided by the Budget Analysts Office and distributed to Office leadership within 10 business days of the end of the month. Budget Analysts Office is responsible for reviewing the budget to actual reporting to ensure compliance with the understanding of the current budget. - Projected budget overruns - Projected budget savings	Monthly	Monthly Actual Report
							Management to budget should be documented by Office for the 15th day of the calendar month. All variances should be documented and explained with clear action items for resolution.		

APPENDIX 12

Sample Control Self-Assessment

The Control Self-Assessment is divided into six categories as follows:

- I. General Controls
- II. Cash Controls
- III. Operating Expenditures
- IV. Personnel Expenditures and Travel
- V. Equipment and Computer Security
- VI. Ethics

I. GENERAL CONTROLS

	Question	Yes	No	N/A
1.	The department performs a monthly reconciliation/review of its Comptroller Statements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	The department performs a monthly reconciliation/review of its payroll reports.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	Unreconciled financial transactions are researched and corrected in a reasonable period of time.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	The number and scope of department authorized signers are reasonable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

APPENDIX 13

Glossary of Terms

Accuracy and Timeliness of Transaction Recording: Prompt recording of transactions to maintain relevance and value to Leadership in controlling operations and making decisions.
Agency Internal Control Officers: Key point of contact within each agency related to project activities such as information gathering, awareness communications and Framework rollout.
Agency Objective: Strategic / Operational objective to drive Agency mission
Agency: State Agency, Bureau, Office, Program, etc. responsible for the identified objective
Annual Risk Assessment: Review the depth of the Risk Assessment within Agencies against the following parameters: Risk alignment to Agency objectives, Risks documentation includes identified owners and controls, Risk ratings are reviewed and updated/documented within the RCM. If an Agency is an outlier, the Statewide Internal Control Officer will identify what is needed to ensure compliance with the Risk Assessment process, and work with the agency leadership and agency ICO to remediate.
Assurance Map: A matrix tool that should be developed, used, and maintained by the Agency Internal Control Officer to monitor the coverage
Assurance Map: To effectively monitor and report on Independent Audit coverage for each Agency, the Agency Internal Control Officer should work with the Control Owners to track High and Critical risks, and the functions that provide independent audit coverage for those risks. A matrix tool that should be developed, used, and maintained by the Agency Internal Control Officer to monitor the coverage
Automated/Manual: RCM Data Field - Manual: Control performed manually by a State Employee / Automated: Control performed by a system / application
Business Performance Reviews: Formal reviews focused on progress toward established, measurable goals - typically involving cross-functional teaming with clear action plans and progress reporting - including monitoring of established performance indicators.
Communication Plan: Provides the <i>minimum</i> guidance on communication requirements to be adhered to by all key individuals within the program
Compliance Risks: Risks which align to State and Federal requirements imposed through laws and regulations.
Continuous Improvement: Process to identify opportunities for improvement of the Statewide Internal Control Program.
Control #: A unique number assigned to the control for tracking and reporting. Numbering should follow the standard scheme of: [3 letter Agency abbreviation]-[###]. Ex: DOL-021
Control Activity Description: Clearly defined control which captures key information such as: Frequency of the control, who performs the control, what inputs / data / information is used to perform the control, what is done with the information to perform the controls, how are issues / discrepancies identified during control performance handled, and how is performance of the control evidenced
Control Assurance Spectrum: Assurance that can be achieved within the Agency, from low to high. Less independent monitoring is achieved through internal procedures conducted by Control Owners within the Agency. More independent monitoring can be achieved through the involvement of an external/independent party conducting the monitoring and testing activities and procedures. Variations of monitoring occur between these two degrees, with external independent testing signifying greater independent monitoring than internal, self-assessment.
Control Owner Self-Assessment: In this Framework, Monitoring is defined as the <i>self-assessment</i> conducted by the Control Owners to foster risk and control awareness and ownership. It provides for early identification of risk and control issues, and in doing so provides Agency Leadership and the Board with ongoing insight into the control environment. Monitoring involves analyzing Agency risks and controls in place to identify weaknesses in performance of these controls designed to mitigate the risks. Self-Assessment is the foundation of the Monitoring and Testing mechanism at the State. Its procedures involve less independent monitoring conducted by Control Owners, categorized within the first line of defense.
Control Owner: The individual at the Agency that is responsible for assuring that the control: Is properly implemented, is performed as defined, results are monitored, remediation/adjustment/actions are completed, Certification actions are completed as required by Agency Internal Control Certification Policies.
Control Performance Details: Additional details to support effective performance of the control, including details which may support ongoing performance of the control in a consistent and effective manner. This may include specific details which will support onboarding new Control Owners.
Control Performer: The individual or group of individuals at the Agency that perform the control

Control Precision: RCM Data Field - The degree to which the control is performed, such as financial thresholds, tolerable variances, etc.
Control Type: Designation to determine if the controls is considered to be addressing an Operational, Financial or Compliance objective / risk
Corrective Action: Control Owners implement corrective action, as necessary, and the Agency Internal Control Officer monitors for proper and timely completion of corrective action.
COSO framework: Defines internal control as a process designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories: 1) Effectiveness and efficiency of operations; 2) Reliability of financial reporting; and, 3) Compliance with applicable laws and regulations. Financial objectives and controls are just one aspect of the COSO Framework. Other key operational, reporting and compliance objectives beyond financial risks need to be considered and addressed
Deficiency Summary: If deficiency exists (either self-identified or through an independent audit), an explanation of how control design / operation fails to allow the Agency, in the normal course of performing functions to timely prevent or detect errors, inaccuracy, or fraud
Design Assessment: RCM Data Field - Designation for if the control is considered appropriately designed to manage the underlying Agency objective / risk
External Communication: Provides transparency into the adoption and effectiveness of the Internal Control Program.
External Independent Monitoring: An independent function that should be used to observe the quality of the internal control environment within the Agency, specified over a certain period of time. It should be used to determine the performance, quality, and reliability of controls within the Agency.
External Independent Testing: An independent audit function to test and determine the performance, quality, and reliability of controls within the Agency. It should be performed in the Third Line of Defense, independent of the Control Owner, and thus provide stakeholders with greater comfort that controls are being performed effectively to mitigate identified risks within the Agency.
Financial Risks: Risks which impact the accuracy and availability of Financial information.
Fraud Risk: Vulnerability to internal fraud
Frequency: The frequency at which control is performed; options include: Multiple times/day, Daily, Weekly, Monthly, Quarterly, Annually, Ad Hoc/As Needed
Impact: If the risk were to occur, the potential impact the risk could have the Agency's ability to achieve stated objectives.
Independent Assurance Provider: An internal / external function that provides independent testing and monitoring of the control environment. RCM Data Field - Indication of whether there is an independent assurance provider which monitors or audits this control
Independent Assurance Provider: RCM Data Field - Indication of whether there is an independent assurance provider which monitors or audits this control
Independent Auditing: In this Framework, Testing is defined as the <i>independent</i> , risk-based audit or testing of specific risks and controls. It provides an independent perspective related to the control environment, and enables compliance oversight and validation of the effectiveness of the Control Owner self-assessment process. Testing involves selection and review of controls within the Agency for adherence to policies and procedures.
Information Processing: Processes, procedures, and controls related to information handling which may include edit checks of data entered, accounting for transactions in numerical sequences, comparing file totals with control accounts, and controlling access to data, files, and programs
Information, Communication, and Reporting: Enables the Agency to bridge its strategy, risk assessment, and communications throughout the State
Internal Communication: Increases awareness of the risk and control environment to improve decision-making and allocation of resources.
Internal Control: Process designed to address Agency risks and assure achievement of Agency objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.
Internal Independent Monitoring: An internal function performed by Agency State Employees outside the Control Owner responsibility. It should be used to provide a higher degree of independence than that of Self-Assessment to observe the quality of the internal control environment within the Agency, over a specified period of time.
Internal Independent Testing: An internal function performed by Agency State Employees outside the Control Owner responsibility. It should be used to provide a higher degree of independence that that of Internal

Independent Monitoring to test and determine the quality of the internal control environment within the Agency, over a specified period of time
Last Self-Assessment Date: The date of the last completed Control Owner Self-Assessment
Likelihood: The probability of the risk occurring and impacting the Agency's objectives
Monitoring and Testing: Conducted to provide assurance to all stakeholders that should be conducted to provide Agency and State Leadership, and other stakeholders with the assurance regarding the operation and compliance of Agency controls, that they are in place and operating effectively, and identify potential areas of failure or violation
Operating Assessment: RCM Data Field - Designation for if the control is considered operating effectively to manage the underlying Agency objective / risk
Operational Risks: Risks directly aligned to achieving Agency, Program and Functional objectives.
Physical Access to Vulnerable Assets: Physical controls to secure and safeguard vulnerable assets (e.g. security for, limited access to, assets such as cash, securities, inventories, and equipment, vulnerable to risk of loss or unauthorized use), including periodic asset counts.
Preventative/Detective: Designation to determine if the control is designed to prevent errors, inaccuracy or fraud before it occurs ("Preventative") or is intended to uncover the existence of errors, inaccuracies or fraud that has already occurred ("Detective").
Program Management: Formal application of knowledge, skills, processes, and tools required for ongoing management and execution of the Statewide Control Environment Framework.
Project Manager/Statewide Internal Control Officer: Bureau of Finance and Management, Responsible for day-to-day execution of the project.
Project Sponsor: CFO, State of South Dakota / Commissioner, Bureau of Finance and Management. Responsible for overall vision and delivery of the project aligned to the stated objectives and benefits.
Project Steering Committee: Cross-functional, cross-agency representatives to provide oversight of the project at critical milestones, including review and feedback on project approach and deliverables
Quarterly Control Performance Testing: Statewide Internal Control Officer will review the results of any independent audits completed during the prior quarter to identify key themes and activities requiring remediation to report to the Statewide Board of Internal Control.
Record and Resource Access: Access restrictions to resources and records to authorized individuals, including accountability for custody and use.
Reference to Compliance Requirement: RCM Data Field - Indication of the specific compliance requirement aligned with control
Reference to Policy: RCM Data Field - Indication of State/Agency policy aligned with control
Remediation Action Plan: To the extent a deficiency exists, a documented plan to address the deficiency, which should include key action items, milestones, and owners
Reporting: Assessment information is gathered by the Agency Internal Control Officer and Agency Leadership. The Statewide Internal Control Officer analyzes, reviews, and summarizes the results for the State Board of Internal Control and State Leadership. The Board and State Leadership evaluate the results, deficiencies, and respective corrective action for appropriateness, designated remediating parties, timeline, etc.
Required Inputs: Pertinent information needed to perform the control (e.g., forms, reports, data analysis, etc.)
Risk and Control Matrix (RCM): Contains standardized data fields for each control within the State's Internal Control Program to support understanding of the control by Control Performers, while also supporting consolidated monitoring, testing, and reporting on the State's Internal Control Program
Risk Assessment Refresh: Update and maintain an accurate risk assessment
Risk Identification: Process of determining the risks that could potentially prevent the State, Agency, or Program from achieving its stated objectives
Risk Interviews: One-on-one conversations to analyze Agency objectives and identify potential risk areas.
Risk Prioritization: Criteria provides a common methodology to determine which risks have the potential to significantly impact Agency objectives
Risk Questionnaire: Survey-type method to collect potential risk areas related to Agency objectives.
Risk Rating: Rating based on the Risk Prioritization Criteria provided in the Framework
Risk Workshops: Group workshop to analyze Agency objectives and identify potential risk areas.
Risk: A description of the people, process or technology risk which may impact the achievement of the stated sub-objective

Roles and responsibilities: Clearly defined within the Framework to support clarity of ownership across all key stakeholder groups.
Segregation of Duties (SOD): Segregation of key duties and responsibilities among Agency employees to reduce the risk of error, misuse, or fraud.
Semi-Annual Control Self-Assessment: Statewide Internal Control Officer will review Agency Self-Assessments to determine the level of adherence to the Framework (timeliness, completeness), and identify key themes to report to the Statewide Board of Internal Control.
State Employees: Execute day-to-day Internal Control Program activities at the Agency level.
State Leadership: Responsible for setting a tone for strong support of the Framework and internal controls, monitoring performance of the internal control environment, and providing additional direction to the State/Agencies to maintain an effective internal control environment, comprised of: Governor for the Executive Branch, Executive Board for the Legislative Branch, Chief Justice for the Unified Judicial System, Executive Director of the Board of Regents Attorney General for the Attorney General's Office, , and elected leaders of the State's other Constitutional Offices, including: State Treasurer, Auditor, Secretary of State, etc. More specifically, State Leadership
Statewide Board of Internal Control: Provide oversight of the project's alignment to the legislative requirements imposed by the State, including long-term sustainability of the program to meet the regulatory requirements
Statewide Internal Control Framework (the "Framework"): Enables the State and its individual Agencies to implement an adaptive, effective internal control system with the intent to continually improve accountability in achieving Agency and State objectives. The Framework consists of a set of Standards which provide guidance for establishing, maintaining, assessing, and reporting effective internal controls across the State.
Sub-Objective: More specified sub-objective to support the overall Agency Objective
Supporting Technology: If applicable, list of technology applications used to perform the control
System / Automated: Controls performed within a system which ensure information is processed accurately, completely and for valid purposes.
Talent Management: Mechanisms in place to facilitate a workforce with required knowledge, skills, and abilities to achieve Agency objectives.
Technology Risk: Potential for technology failures to disrupt Agency information security, service, processes, procedures, etc.
Three Lines of Defense: Depicts the interaction of key roles within the Internal Control Program regardless of Agency, functional titles and/or reporting.
Tone at the Top: Support by Agency Leadership which establishes an overall expectation and strategy related to internal controls at the Agency level, which is then supported by activities performed by Agency personnel
Transaction Documentation: Clear documentation of transactions / significant events to allow documentation be readily available for examination.
Transaction Processing: Process to ensure valid transactions are used to exchange, transfer, use, or commit resources on behalf of the Agency.

Code of Conduct and Conflict of Interest Policy for Use By State Authority, Board, Commission, and Committee Members

Purpose

The purpose of this code of conduct and conflict of interest policy ("Code") is to establish a set of minimum ethical principles and guidelines for members of state authorities, boards, commissions, or committees when acting within their official public service capacity. This Code applies to all appointed and elected members of state authorities, boards, commissions, and committees (hereinafter "Boards" and "Board member(s)"). A Board may add provisions to, or modify the provisions of, the Code. However, any change that constitutes a substantive omission from the Code must be approved by the State Board of Internal Control.

Conflict of Interest for Board Members

Board members may be subject to statutory restrictions specific to their Boards found in state and federal laws, rules and regulations. Those restrictions are beyond the scope of this Code. Board members should contact their appointing authority or the attorney for the Board for information regarding restrictions specific to their Board.

General Restrictions on Participation in Board Actions

A conflict of interest exists when a Board member has an interest in a matter that is different from the interest of members of the general public. Examples of circumstances which may create a conflict of interest include a personal or pecuniary interest in the matter or an existing or potential employment relationship with a party involved in the proceeding.

Whether or not a conflict of interest requires a Board member to abstain from participation in an official action of the Board depends upon the type of action involved. A Board's official actions are administrative, quasi-judicial or quasi-legislative.

A quasi-judicial official action is particular and immediate in effect, such as a review of an application for a license or permit. In order to participate in a quasi-judicial official action of the Board, a Board member must be disinterested and free from actual bias or an unacceptable risk of actual bias. A Board member must abstain from participation in the discussion and vote on a quasi-judicial official action of the Board if a reasonably-minded person could conclude that there is an unacceptable risk that the Board member has prejudged the matter or that the Board member's interest or relationship creates a potential to influence the member's impartiality.

A quasi-legislative official action, also referred to as a regulatory action, is general and future in effect. An example is rule-making. If the official action involved is quasi-legislative in nature, the Board member is not required to abstain from participation in the discussion and vote on the action unless it is clear that the member has an unalterably closed mind on matters critical to the disposition of the action.

Administrative actions involve the day-to-day activities of the Board and include personnel, financing, contracting and other management actions. Most of the administrative official actions of a Board are done through the Board's administrative staff. To the extent Board members are involved, the conflict of interest concern most frequently arises in the area of state contracting which is addressed in more detail below. If issues arise that are not directly addressed by this Code, the Board member should consult with the attorney for the Board.

"Official action" means a decision, recommendation, approval, disapproval or other action which involves discretionary authority. A Board member who violates any of these restrictions may be subject to removal from the Board to which the member is appointed.

Contract Restrictions

There are federal and state laws, rules and regulations that address conflict of interest for elected and appointed Board members in the area of contracts. As an initial matter, a Board member may not solicit or accept any gift, favor, reward, or promise of reward, including any promise of future employment, in exchange for recommending, influencing or attempting to influence the award of or the terms of a state contract. This prohibition is absolute and cannot be waived.

Members of certain Boards are required to comply with additional conflict of interest provisions found in SDCL Chapter 3-23 and are required to make an annual disclosure of any contract in which they have or may have an interest or from which they derive a direct benefit. The restrictions apply for one year following the end of the Board member's term. The Boards impacted by these laws are enumerated within SDCL 3-23-10. For more information on these provisions, see the State Authorities/Boards/Commissions page in the Legal Resources section of the Attorney General's website at: <http://atg.sd.gov/legal/opengovernment/authorityboardcommission.aspx>.

Absent a waiver, certain Board members are further prohibited from deriving a direct benefit from a contract with an outside entity if the Board member had substantial involvement in recommending, awarding, or administering the contract or if the Board member supervised another state officer or employee who approved, awarded or administered the contract. With the exception of employment contracts, the foregoing prohibition applies for one year following the end of the Board member's term. However, the foregoing prohibition does not apply to Board members who serve without compensation or who are only paid a per diem. See SDCL 5-18A-17 to 5-18A-17.6. For more information on these restrictions see the Conflict of Interest Waiver Instructions and Form on the South Dakota Bureau of Human Resources website at: <http://bhr.sd.gov/forms/>.

Other federal and state laws, rules and regulations may apply to specific Boards. For general questions regarding the applicability of SDCL Chapter 3-23 or other laws, a Board member may contact the attorney for the Board. However, because the attorney for the Board does not

represent the Board member in his or her individual capacity, a Board member should contact a private attorney if the member has questions as to how the conflict of interest laws apply to the Board member's own interests and contracts.

Consequences of Violations of Conflict of Interest Laws

A contract entered into in violation of conflict of interest laws is voidable and any benefit received by the Board member is subject to disgorgement. In addition, a Board member who violates conflict of interest laws may be removed from the Board and may be subject to criminal prosecution. For example, a Board member may be prosecuted for theft if the member knowingly uses funds or property entrusted to the member in violation of public trust and the use resulted in a direct financial benefit to the member. See SDCL 3-16-7, 5-18A-17.4, and 22-30A-46.

Retaliation for Reporting

A Board cannot dismiss, suspend, demote, decrease the compensation of, or take any other retaliatory action against an employee because the employee reports, in good faith, a violation or suspected violation of a law or rule, an abuse of funds or abuse of authority, a substantial and specific danger to public health or safety, or a direct criminal conflict of interest, unless the report is specifically prohibited by law. SDCL 3-16-9 & 3-16-10.

Board members will not engage in retaliatory treatment of an individual because the individual reports harassment, opposes discrimination, participates in the complaint process, or provides information related to a complaint. See SDCL 20-13-26.

Anti-Harassment/Discrimination Policy

While acting within their official capacity, Board members will not engage in harassment or discriminatory or offensive behavior based on race, color, creed, religion, national origin, sex, pregnancy, age, ancestry, genetic information, disability or any other legally protected status or characteristic.

Harassment includes conduct that creates a hostile work environment for an employee or another Board member. This prohibition against harassment and discrimination also encompasses sexual harassment. Sexual harassment includes unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexually harassing nature, when: (1) submission to or rejection of the harassment is made either explicitly or implicitly the basis of or a condition of employment, appointment, or a favorable or unfavorable action by the Board member; or (2) the harassment has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile, or offensive working environment.

Harassment or discriminatory or offensive behavior may take different forms and may be verbal, nonverbal, or physical in nature. To aid Board members in identifying inappropriate conduct, the following examples of harassment or discriminatory or offensive behavior are provided:

- Unwelcome physical contact such as kissing, fondling, hugging, or touching;

- Demands for sexual favors; sexual innuendoes, suggestive comments, jokes of a sexual nature, sexist put-downs, or sexual remarks about a person's body; sexual propositions, or persistent unwanted courting;
- Swearing, offensive gestures, or graphic language made because of a person's race, color, religion, national origin, sex, age or disability;
- Slurs, jokes, or derogatory remarks, email, or other communications relating to race, color, religion, national origin, sex, age, or disability; or
- Calendars, posters, pictures, drawings, displays, cartoons, images, lists, e-mails, or computer activity that reflects disparagingly upon race, color, religion, national origin, sex, age or disability.

The above cited examples are not intended to be all-inclusive.

A Board member who is in violation of this policy may be subject to removal from the Board.

Confidential Information

Except as otherwise required by law, Board members shall not disclose confidential information acquired during the course of their official duties. In addition, members are prohibited from the use of confidential information for personal gain.

Reporting of Violations

Any violation of this Code should be reported to the appointing authority for the Board member who is alleged to have violated the Code.

This Code of Conduct and Conflict of Interest Policy was adopted by the State Board of Internal Control pursuant to SDCL § 1-56-6.