



 EXCEPTIONALLY WELL-IMPLEMENTED BEST PRACTICE:
INTERNAL CONTROL NETWORK

State of South Dakota

Statewide Internal Control Framework

BY JAMIE PORTER



About South Dakota

South Dakota is a large, sparsely populated state where rolling prairie gives way to the dramatic Badlands and Black Hills. It has 884,659 residents distributed between rural areas and a few smaller cities.

The State of South Dakota's Statewide Internal Control Framework allows the state and its agencies to implement an adaptive, effective internal control system. The framework's standards provide guidance for establishing, maintaining, assessing, and reporting effective internal controls across the state government. The purpose of this project is to provide a greater level of assurance to state leadership that the state is accomplishing its operational, reporting, and compliance outcomes.

The idea for the framework came about because of an instance of fraud committed by vendors that received funding from the state. As Mark Quasney, former statewide internal control officer and current state economist, explained, "The investigations into the incident made state officials realize agencies weren't following guidance consistently. A standardized form of internal control across state government was needed to avoid running from issue to issue. The framework would give agencies the tools they needed to be able to identify issues before problems occurred and to put measures in place to mitigate those risks."

The State of South Dakota was looking for a way to implement a system of internal control that went beyond what was already in place, Quasney explained. The state wanted to ensure that it was being proactive, not just reacting to instances of fraud as they occurred but actually preventing fraud from occurring.

CREATING THE FRAMEWORK

The state worked with consultants to create the initial draft of the Statewide Internal Control Framework. To begin this process, a joint team worked with leaders and professionals across the state's agencies. A multi-agency Internal Control Framework Steering Committee was created to gain more insight into the operation of each part of the state. The Statewide Internal Control Officer Framework then formally developed the framework in 2018, in collaboration with the Framework Steering Committee, and the framework was implemented over a 10- to 16-week period that included different levels of training. Agencies conduct their own risk identification, risk prioritization, control identification and documentation. Also, a State Board of Internal Control was created to build in accountability; agencies are required to report to the board twice a year about their internal controls.

The framework is closely aligned with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) principles. COSO language is usually used by the private sector, but South Dakota adapted it for state government. As Quasney explained, "We understood that the public and private sectors don't align perfectly and that there are some nuances in how governance occurs between government and private sector. We knew we couldn't just take COSO and say, 'OK, now the state is using COSO.'" South Dakota worked with its consultants to create something that was COSO-based but catered to a governmental setting.

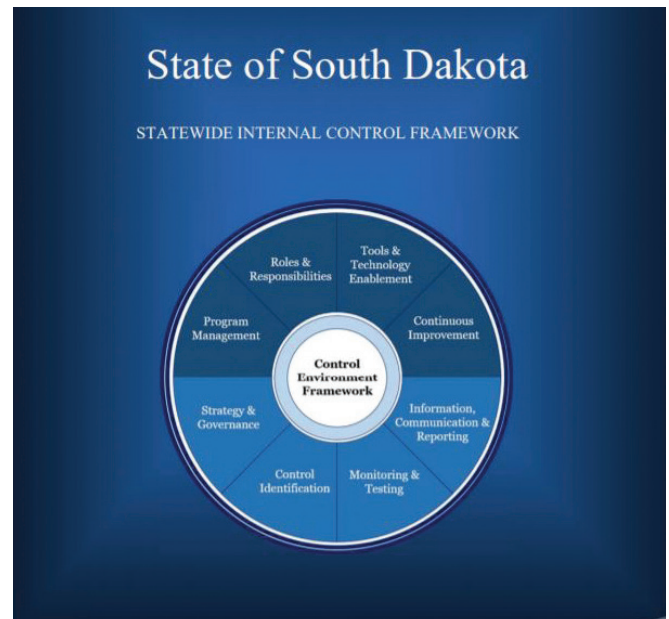
Taking inspiration from COSO, the framework is made up of eight elements:

- Program Management
- Roles and Responsibilities
- Tools and Technology Enablement
- Continuous Improvement
- Information, Communication, and Reporting
- Monitoring and Testing
- Control Identification
- Strategy and Governance

The elements are laid out in a wheel structure to build in continuous improvement as part of the process. The idea is that once an agency goes through the framework and all eight elements, the agency "starts back over, constantly getting better, constantly improving the framework, constantly improving the state of internal control in state government," Quasney said.

GETTING CONTINUOUS IMPROVEMENT UNDERWAY

The framework was designed to help agencies get this system of continuous improvement underway, after which each agency would be the owner of their own framework. Allysen Kerr, the current statewide internal control officer, explained that



the guidance has to be put into operation at the agency level, not centrally by the state government. Quasney agreed, noting that the key is for agencies to own their respective frameworks. The framework is meant to be a tool to help agency leadership manage their agencies and to cover all categories of risk, not just to focus narrowly on something such as fraud, he explained.

As of May 2019, the Statewide Internal Control Framework had been implemented in two agencies, the Bureau of Finance and Management and the Department of Revenue. The two agencies identified a total of 165 controls and 514 risks, and 100 percent of self-assessments were completed on time. Kerr and the state are now focused on contracting with a technology company to bring everything online and expanding to work with more agencies. They are working with one agency per quarter, implementing and setting up the framework. "We sit down with one agency at a time and help identify risks and see if they have any controls implemented for those risks," Kerr said.

CHALLENGES AND LESSONS LEARNED

Quasney and Kerr point out a number of challenges encountered in creating and implementing the framework. The main challenge, as mentioned above, was adapting the COSO framework to a public setting like the State of South Dakota. Quasney noted that the initial challenge was that other states haven't addressed control by adapting something normally used in the private sector for government. "Balancing a very strong system of internal control and also understanding that agencies have their independence was a critical part of this challenge," he explained. The state created the steering committee, held



State Of South Dakota Internal Control Program Snapshot

KEY ACCOMPLISHMENTS TO DATE

| Metric | Current Period | Prior Period |
|---|----------------|--------------|
| Number of Overall Findings | 3 | n/a |
| Number of Remediation Plans in Progress | 30 | n/a |
| Number of Issues Related to IT | n/a | n/a |
| % High/Critical Risks | 35.2% | n/a |
| % High/Critical Risks with Deficiencies | 17.1% | n/a |
| Number of New Risks Identified | 514 | n/a |
| % Certifications Completed on Time | 100% | n/a |
| Number of New Controls Identified | 165 | n/a |

2 Agencies Onboarded

1 3rd Party Assessment Performed

100% of Self Assessments Completed On Time

514 Risks Identified

165 Controls Identified

question and answer sessions, developed the framework, and bounced ideas off the steering committee to find what would work and what would need some revision.

Other challenges included creating buy-in for the framework among state agencies. “Overcoming everyone’s preconceived notions about what the process and framework was going to be was—and remains—a challenge,” Quasney said. “A lot of agencies are short-staffed as is, so finding dedicated time is also a hurdle,” Kerr added. And this situation has only been compounded by COVID-19.

It was also difficult to find software partners that understood what the government would need, because “a lot of software providers out there primarily have experience in the private sector,” Quasney said. Kerr pointed out that one of the biggest challenges is that software partners are more tailored to the public companies. “The timeframe they gave was not going to work in the government setting, so it took a lot longer to get it tailored to what would make sense for the State of South Dakota and state agencies. The extra time that this took was a considerable hurdle,” she said.

Having a framework, they learned, provided “guidance and something to start and work from,” Kerr said. It also kept the process consistent across agencies. Kerr also noted the importance of having a state board of internal control, focused on overseeing the framework, and having agencies report

semi-annually, as this kept the agencies accountable in terms of implementing and following the framework.

Another crucial step is securing buy-in and support from the very top, right from the beginning. Leadership was instrumental in setting the tone that this framework was “something that needs to be done,” Quasney said. Support from leadership meant that the State of South Dakota implemented a law formalizing the framework. Implementing and following the framework became “something that was a requirement by law” rather than “something that we ask be done,” Mark explained.

GFOA BEST PRACTICE

The state followed GFOA’s *Internal Control Network* Best Practice in creating its Statewide Internal Control Framework. In the Best Practice, GFOA recommends a series of steps that governments should follow to establish a strong internal control environment. These include steps to ensure that: all levels of the government and staff throughout the organization demonstrate a commitment to the framework; the governing body assumes responsibility for overseeing internal control; management develops organizational structures and ensures staff accountability; governments commit to attracting and retaining competent employees; and governments hold individuals accountable for their internal control responsibilities. [\[4\]](#)

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