

# Internal Control



## Background

The 2016 Legislature passed SB162 which created the State Board of Internal Control (SBIC), codified in SDCL §1-56.

The goal is to safeguard government assets and develop tools to reduce risk with an emphasis on the "arms-length" outside entities. Much of the efforts thus far have focused on subrecipient grant relationships and strengthening related requirements.

The SBIC has required all state agencies to adopt a Code of Conduct substantially similar to the Code of Conduct for State employees found in the BHR handbook. (See motion below.) The SBIC also requires all state agencies to comply with the laws regarding conflicts of interest and outside interests (SDCL 5-18A-17 through 5-18A-17.6).

SBIC motion: *"The State Board of Internal Control adopts the South Dakota Bureau of Human Resources' Employee Handbook, and all future revisions, as the Code of Conduct for all State employees excluding the Unified Judicial System and Higher Education (Board of Regents, State Universities, and the State Special Schools). All State Agencies as defined by SDCL 1-56 shall adopt the Code of Conduct contained in the South Dakota Employee Handbook, or a Code of Conduct substantially similar, as a Code of Conduct for State employees."*

## Review Summary of Code of Conduct Sections – "Substantially Similar"

The BHR Code of Conduct is included in either the LRC Employee Personnel Manual (PM) or the South Dakota Legislative IT Policy Manual (ITM). In several cases, LRC policy is more restrictive or has a higher standard of conduct. The review below finds the LRC has substantially similar policies as those contained in the BHR Code of Conduct as required by the SBIC.

- **Accepting Gratuities, Rebates, Reward Points and Other Perquisites** – covered in the PM/Ethics section p. 3.
- **Anti-Harassment/Discrimination Policy** – covered in the PM/Anti-Harassment and Nondiscrimination Policy section p. 3.
- **Conflict of Interest** – Director signs all LRC contracts and is aware of the conflict of interest laws. (See also: Conflicts of Interest and Segregation of Duties Policy on reverse.)
- **Outside Employment** – covered in the PM/Ethics and Outside Employment sections p. 3 & 13.
- **Political Activity** – covered in the PM/Prohibited Political Activity section p. 11. NOTE: The BHR policy is specific to the use of resources, whereas the LRC policy restricts all activity not just use of resources.
- **Disciplinary Action** – all LRC employees serve at-will. Additionally, the PM includes a Disciplinary Action section p. 12.
- **Use of Technology** – covered in the ITM/Acceptable Use Policy section p. 1.
- **Workplace Fraud or Theft** – covered in the PM/Ethics section. LRC employees are held to a high standard.

## Recommended Addition

The one area not specifically covered in the LRC Manuals is reporting suspected wrongdoing. It is implied in many areas, and stated in SDCL 1-56-11, that employees should report to their supervisor, Director or Deputy Director; however, further clarity may be in order.

Recommended addition to the PM/Ethics section:

*"Employees who suspect fraud, theft or a conflict of interest shall report it to their supervisor, LRC Director, LRC internal control officer, Chair of the Executive Board, or the Department of Legislative Audit."*

### **Conflicts of Interest and Segregation of Duties Policy**

LRC has the following management policy in place to avoid risk. This policy is included in the Office Procedures Manual which has been distributed to all employees, discussed at a staff meeting, and is available continuously as an icon on all employee devices.

- All contracts, agreements and transactions shall comply with all applicable laws, regulations, and internal policies regarding conflicts of interests and prohibited transactions. (Including SDCL chapters 3-23, 5-18A)
- The Director signs all contracts after review by the Code Counsel.
- The Business Manager shall process vouchers in accordance with state law, Board of Finance rules, State Auditor policy, and the adopted operating budget of the LRC.
  - a. The Director approves all staff out-of-state travel and supervisors approve staff in-state travel.
  - b. The Director approves all purchase orders pursuant to contracts or purchasing guidelines. The Director may delegate approval of purchases less than \$1,000 to a senior staff member.
  - c. The Speaker or President Pro Tem approve all legislator travel (SDCL 2-9-4). The Speaker or President Pro Tem also approve salary and expenses of non-legislators serving on legislative committees.
  - d. Contract payments are made in accordance with the terms of the contract.
- The Chief Fiscal Analyst reviews expenditure and payroll reports at least monthly for inappropriate or untimely activity.

