



SouthDakota

Legislative Research Council

MINUTES GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

Senator Larry Tidemann, Chair
Representative Dan Dryden, Vice Chair

First Meeting
2014 Interim
May 7, 2014

Room 413
State Capitol
Pierre, South Dakota

The first meeting of the 2014 Interim Government Operations and Audit Committee (Committee) was called to order by Chair Tidemann at 9:00 a.m., May 7, 2014, in LRC Room 413, State Capitol Building, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Senators Heineman, Hunhoff, Lucas, and Tidemann. Representatives Dryden, Magstadt, and Wismer. Representatives Cronin and Mickelson were present through conference call. Senator Curd was excused.

Staff members present were Mr. Martin Guindon, Auditor General, Mr. Bob Christianson and Mr. Tim Flannery, State Government Audit Managers for the Department of Legislative Audit (DLA).

Approval of Minutes

Representative Dryden moved, seconded by Senator Lucas, the minutes of the March 7, 2014, meeting be approved. Motion prevailed unanimously on a voice vote.

Item 1 – Juvenile Corrections Monitor Semi-Annual Report for the period July 1, 2013 through December 31, 2013

Gloria Pearson, Secretary for the Department of Human Services, addressed the Committee and introduced Kathleen Colson, Juvenile Corrections Monitor (JCM) for the Department of Human Services. Ms. Colson then provided a review on how the semi-annual report information is gathered. She went through the report in detail. Doug Herrmann, Department of Corrections, was also present through conference call to address the Committee regarding the semi-annual report.

Ms. Colson provided the following answers to Committee questions:

- We do not monitor the contact per individual youth because there are so many changes in a six month period. We only monitor a six month period for contacts received.
- Identifying trends in the type of contacts made is not something that is done by the JCM and is not something that is within the scope of her duties.

Mr. Herrmann provided the following answers to Committee questions:

- Staff discipline ranges from verbal to written reprimand, work improvement plans, additional training, or termination. Each situation warrants a specific course of action be taken to improve the situation.
- New hires are given very specific training. They also go through on the job training and continuous ongoing training as well.
- The Department of Corrections watches for patterns and closely monitors the activities in the facilities. The Department of Correction's website contains reports for the last six years. The Department of Corrections also compares the South Dakota reports with reports from other facilities across the United States.

- The overall population count for the South Dakota facilities is down. Youth are not returning back to the program as often.

Item 2 – Department of Corrections – Report on Abuse and Neglect in Private Placement Facilities for the period July 1, 2013 through December 31, 2013

Mr. Herrmann was available to discuss this report, but due to the fact that the report contained confidential information he was not able to go into much detail without going into executive session. It was decided that any other questions that needed to be answered would be done through personal contact to Mr. Herrmann.

Item 3 – Governor’s Office to discuss additional agencies that will be implementing performance measures

Dusty Johnson, Chief of Staff for the Governor’s Office, provided a handout that discussed the Key Indicators Project. The handout outlined the progress that has been made, the feedback that has already been received, and the next steps that the Governor’s Office believes should be taken.

A discussion followed Mr. Johnson’s presentation regarding whether the focus should be on departments or on individual projects/programs, and which departments or projects/programs. The Governor’s Office did suggest a few departments as well as projects/programs that they feel should be looked at first. Martin Guindon, Auditor General, and Annie Mehlhaff, Legislative Research Council, were present to give their opinions on what should be considered as the Committee decides what departments or projects/programs to look at and how they should go about deciding what the measures being looked at are in order to get the best results.

The Committee voted to ask the following departments to attend future meetings and discuss their performance metrics:

- Education Department – second year progress update
- Department of Corrections – second year progress update
- Treasurer’s Office – second year progress update
- Department of Health

Senator Heineman moves that the above departments come before the Committee in the near future and Senator Hunhoff seconds the motion. Motion carried by a voice vote.

Item 4 – Department of Legislative Audit to review the Single Audit Report for the fiscal year ended June 30, 2013

Due to the time that was available, Mr. Bob Christianson and Mr. Tim Flannery, State Government Audit Managers for the Department of Legislative Audit (DLA), went straight to the presentation of the Department of Agriculture audit findings. The rest of the Single Audit Report was discussed after the Department of Agriculture presented their corrective action plans related to the audit findings.

Mr. Flannery discussed in detail the six findings that were found during the audit of the Department of Agriculture. Mr. Flannery and Mr. Christianson answered questions regarding these findings such as how these findings were discovered and why these findings have not been noticed in the past.

Item 5 – Department of Agriculture to discuss their corrective action plans for the audit findings included in the Single Audit Report for the fiscal year ended June 30, 2013

Chris Petersen, Finance Officer for the Department of Agriculture, was present to go through the audit findings related to the Department of Agriculture. Mr. Petersen provided a handout which had a

summary of the findings and the department's responses. He discussed the findings and responses in detail.

Audit Finding Number 2013-019: Subrecipients were not made aware of award information and compliance requirements.

Corrective Action Plan: Development and rewrite of standard contract/grant agreement forms is nearly complete. Forms now include the required Federal information.

Mr. Petersen provided the following answer to a Committee question:

- The findings discussed today were from not noting the grant number on the cover of the grant agreement and from technical headings being left off.

Mr. Flannery provided the following answer to a Committee question:

- If the state hands Federal money to a subrecipient than the subrecipient needs to follow the same rules the state does when it comes to reporting the Federal dollars expended.

Audit Finding Number 2013-020: Legislative Audit identified the use of an outdated indirect cost rate by the Resource Conservation & Forestry Division when submitting costs to the U.S. Forest Service (USFS) for reimbursement.

Corrective Action Plan: To reconcile the indirect cost over-payment from USFS the Division intentionally under-recovered a like amount of indirect cost from the fiscal year 2014 grant reimbursement claims submitted to USFS. Grant funds are now back in balance and the Division is using the fiscal year 2014 indirect cost rate on all reimbursement claims.

Mr. Petersen answered multiple questions regarding the way the indirect cost recovery rate is calculated.

Audit Finding Numbers 2013-021 and 2013-022: Legislative Audit identified variances related to expenses submitted to the USFS for reimbursement under the Cooperative Forestry Assistance Grant vs. the project based expense coding used by the Department of Agriculture under fund source 027 in the South Dakota Accounting System (SDAS).

Corrective Action Plan: The Department is still using standard project based accounting practices in the current fiscal year, but is working with the Bureau of Finance and Management to establish a secondary fund source to separate expenditures that will be submitted for Federal reimbursement vs. project costs that will not be part of Federal reimbursement requests starting in fiscal year 2015.

Mr. Petersen answered multiple questions regarding project accounting and Federal indirect cost reimbursements.

Mr. Flannery answered questions regarding amounts reported in the Single Audit. Mr. Christianson answered questions regarding the Blue Book as well as questions regarding indirect costs.

Audit Finding Number 2013-023: Inadequate internal controls were identified within the Wildland Fire Division related to proper approval of payments to subrecipients.

Corrective Action Plan: The Wildland Fire Division worked directly with the subrecipient to secure the appropriate documentation and validate the payment amount. The need for additional accounting support staff resources in the Wildland Fire Division was identified during fiscal year 2013. The

Legislature approved funding and an additional employee for accounting support during the 2013 Legislative Session. An additional support staff position was hired in early fiscal year 2014.

Audit Finding Number 2013-024: A compliance audit finding was identified related to state laws governing indirect cost reimbursements.

Corrective Action Plan: The Department is exploring suspending the practice of moving indirect costs funds into project/activity codes within its Federal fund. Expenses may need to be coded directly to 001, the indirect cost fund coding.

Mr. Petersen discussed audit finding numbers 2013-023 and 2013-024 and answered more questions regarding the use of indirect cost reimbursements.

Item 6 – Department of Agriculture to discuss the state’s food safety measures for unpasteurized dairy products

Lucas Lentsch, Secretary of the Department of Agriculture, was present to address the Committee regarding this topic. Mr. Lentsch gave a brief history of the Raw Milk Group and discussed what the group is currently doing to determine that the appropriate safety measures are being used for unpasteurized dairy products.

Mr. Lentsch provided the following answers to Committee questions:

- There are currently three producers who are actively engaged and two producers who are actively selling bottled raw milk.
- There are tests done on a monthly basis for those providing direct delivery to consumers. These tests are to make sure the raw milk is not contaminated and is meeting the following standards found in Administrative Rules of South Dakota Article 12:81:
 - 1) Temperature: Maintained at 45 degrees Fahrenheit (7 degrees Celsius) or less;
 - 2) Antibiotics: No positive results on drug residue detection methods that are currently validated by United States Food & Drug Administration-Center for Veterinarian Medicine or any other drug detection methods, as deemed necessary by the department;
 - 3) Bacteria Limits: Not to exceed 20,000 per ml;
 - 4) Coliform: Not to exceed 10 per ml;
 - 5) Pathogen: No pathogenic bacteria present.
- As far as the requirements for places such as farmer’s markets, there is more clarity needed. With a farmer’s market the customers may be frequent consumers or they may be a one-time buyer. This is a topic which will be discussed as the group moves forward.

Mr. Christianson and Mr. Flannery continued with the discussion of the Single Audit Report for fiscal year 2013. Mr. Christianson and Mr. Flannery answered additional Committee questions regarding the Single Audit. It was decided by the Committee that the Department of Health will be brought in for a future meeting regarding their audit findings.

Item 7 – Conflict of Interest (SDCL 5-18A-17)

Senator Lucas provided a copy of the current statute and discussed the changes that should be considered regarding the statute. This topic will be discussed again at a future meeting.

Future Items for Discussion

- Other Fund Information (Blue Book)
- Annual Report – State 911 Coordinator
- Employee background checks
- Conflict of Interest Policy

- Travel reimbursement policies
- Whistleblower policy
- Performance measures
- Building South Dakota Fund
- Board of Economic Development
- Last two years of Future Fund grants
- State health plan for employees/retirees
- Law Enforcement Officers Training Fund
- Medicaid Management Information System update
- Tracking the dollars spent for the sheep herd in the Black Hills
- Department of Health fiscal year 2013 audit findings
- Employment Based-5 (EB-5) program follow-up: SDRC Inc. records required by the contract between SDRC Inc. and the former Department of Tourism and State Development, the terms of the U.S. Citizenship and Immigration Services (USCIS) contract with SDRC Inc. and the terms of the USCIS contract with the Governor's Office of Economic Development

Future Meeting Date

The next meeting will be held June 18, 2014 at 9:00 a.m.
Discussed and approved as a Committee.

Representative Dryden moved to adjourn the meeting at 4:18 p.m., seconded by Representative Magstadt, and carried by a voice vote.

This meeting is being held in a physically accessible location. Any individual needing assistance, pursuant to the Americans with Disabilities Act, should contact the Legislative Research Council (605-773-3251) in advance of the meeting to make further arrangements.

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