

MINUTES

Government Operations & Audit Committee

Representative Jean Hunhoff, Chair
Senator Deb Peters, Vice Chair



**First Meeting, 2018 Interim
Tuesday, April 24, 2018**

**Room 362 – State Capitol
Pierre, South Dakota**

The first meeting of the 2018 Interim Government Operations and Audit Committee (Committee) was called to order by Chair Hunhoff at 8:00 a.m., April 24, 2018, in room 362, State Capitol Building, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Representatives Wismer, Steinhauer, Bartels, Anderson, and Hunhoff. Senators Sutton, Cronin and Peters joined by conference call. Senator Greenfield joined after roll was called. Senator Tapio was excused.

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

NOTE: For purpose of continuity, the following minutes are not necessarily in chronological order. The bulleted items below each agenda item are documents sent out by the Committee.

Approval of Minutes

Representative Steinhauer moved, seconded by Representative Anderson, the minutes of the December 18, 2017 meeting be approved ([Minutes - 12/18/17](#)). Motion prevailed unanimously on a roll call vote.

Item 1 – Department of Legislative Audit to review the Single Audit Report for the State of South Dakota for the fiscal year ended June 30, 2017

- [SD Single Audit FY2017 Doc.2](#)
- [FY2017 Single Audit Overview Doc.3](#)

Bob Christianson, State Government Audit Manager with the Department of Legislative Audit (DLA), was present to address the Committee. He discussed the [FY2017 Single Audit Overview](#) and explained that the single audit is an audit of the State's financial statements and federal awards. There are two parts to the audit: The Comprehensive Annual Financial Report (CAFR) issued by the Bureau of Finance and Management (BFM) on December 29, 2017 and the Single Audit issued on March 29, 2018.

Mr. Christianson reviewed the standards used in the preparation of the Single Audit. He advised the CAFR has three sections and discussed each one. The Independent Auditor's Report provided an unmodified opinion on the financial statements, meaning they were presented fairly. Mr. Christianson urged everyone to review the management's discussion and analysis section to gain an understanding of the financial statements and get an idea of what changes took place.

Mr. Christianson discussed the fund financial statements and provided the major governmental funds. He discussed the criteria required for a fund to be considered major and advised that the notes to the financial statements provide additional information.

Mr. Christianson explained the difference between using a cash basis of accounting, as used in the Blue Book, and a modified accrual basis used in the CAFR. Modified accrual basis shows not only the balance in the account, but what is owed to you, and what you owe. Representative Wismer asked for more information about the cash in local bank accounts. Mr. Christianson advised that the State uses local accounts as clearing accounts to collect revenue. Marty Guindon, Auditor General with DLA, advised that they will provide additional information to the Committee at the next meeting. Mr. Christianson discussed the reconciliation on page 8. Mr. Guindon advised that the fund balance is the total of the financial resources whereas the net position shows the State's economic resources. Representative Wismer asked about adjusting journal entries and suggested spending more time looking at them.

Mr. Christianson discussed the methodology used for grant testing in the single audit. In FY2017, there were 27 Type A grant programs and 37 large Type B grant programs. The Schedule of Expenditures of Federal Awards (SEFA) lists all federal awards disbursed by the State and is found on pages 195-241 of the Single Audit.

Mr. Flannery and Mr. Christianson reviewed the current audit findings.

Finding No. 2017-008: Department of Social Services (DSS) – There were significant deficiencies in sub-recipient monitoring and they were not able to provide documentation of monitoring assessments for three sights and two sights had not been reviewed since FY2012.

Finding No. 2017-009: Department of Game Fish and Parks (GF&P) – A repeat significant deficiency where there was no supervisory review over required reporting.

Finding No. 2017-010: GF&P – A repeat finding where GF&P improperly calculated the transfer of revenue received from hunting and fishing licenses to the State Radio.

Finding No. 2017-011: Department of Education (DOE) – Lack of formal documentation of a policy over cash management requirements.

Finding No. 2017-012: Ellsworth Development Authority – A material weakness resulting in an audit adjustment to the deferred revenue due to an error in a year-end calculation.

Finding No. 2017-013: Soybean Research and Promotion Council – A lack of proper controls over financial reporting, requesting the auditors to prepare the financial statements.

Finding No. 2017-014: Corn Utilization Council – A lack of proper controls over the preparation of financial statements where the auditors were requested to prepare the financial statements.

Item 2 – Update on the work being done by the State Board of Internal Control

- [Letter to BFM Doc.4](#)

Mark Quaseny, Statewide Internal Control Officer with the Bureau of Finance and Management (BFM), was present to address the Committee. Since August, the State Board of Internal Control (SBIC) has had two additional meetings. In those meetings, they reviewed two sub-recipient audit findings, reviewed the code of conduct and conflict of interest policy for state authorities, boards and commissions and discussed ensuring that sub-recipients and grant recipients are abiding by the applicable compliance requirements. BFM has contracted with Price Waterhouse Coopers (PwC) for their internal control consultant project to establish a statewide internal control framework and implement it within agencies. The consultants are providing subject-matter expertise, are helping draft documents for the framework and will help with implementation.

Mr. Quaseny explained that BFM does not receive federal grants and cash management policies can have specific requirements for each grant, making it hard to have a centralized cash management policy. Representatives Steinhauer and Bartels advised that there should be a standardized cash management policy that has procedures for dealing with cash. Mr. Quaseny advised that the internal control framework will address ensuring that policies and procedures are properly documented.

Item 3 – Board of Regents to discuss cash balance reports

- [Letter to Board of Regents Doc.5](#)
- [BOR Cash Balances Doc.5a](#)

Monte Kramer, Assistant Vice President for Finance Administration with the Board of Regents (BOR), was present to address the Committee. He advised that they will continue to use the Blue Book as well as the Annual Financial Assessment Report. Mr. Kramer defined the different types of funds: restricted funds, committed funds, assigned funds and unassigned funds. Representative Bartels asked for additional information as to where the funds came from. Mr. Kramer explained that the BOR monitors cash on a quarterly basis.

Mr. Kramer discussed the [BOR Cash Balances](#) handout and discussed using the term uncommitted funds. These funds have commitments, but not by statute or federal agencies. He explained that this handout highlights how much each university has available to operate. The statements are as of June 30th, but they account for expenses during the summer with the Net Operating Expenditure for July and August entry.

Michael Holbech, Director of Finance and Budget at South Dakota State University (SDSU), was present to address the Committee. He advised that analyzing SDSU's cash balances requires considering three different competing interests: financial stability and risk management, planned and unplanned spending and investing in their mission. Mr. Holbech discussed a crosswalk from the Blue Book to the BOR Cash Balance Report, the commitments they have against cash, the tuition fee cycle and risk management issues. SDSU's operating expenses are about \$300 million per year.

Shelley Brunick, Comptroller at the University of South Dakota (USD), presented the USD Cash Balances. She reviewed the crosswalk between the Blue Book and the BOR Cash Balance Report, their commitments to cash, tuition and revenue fee cycle, other commitments and risk. USD's operating expenses are about \$204 million per year.

Item 4 – Brand Board to review the 2017 annual report (SDCL 40-18-18)

- [Letter to Brand Board Doc.6](#)
- [SD Brand Board Report Doc.7](#)

Debbie Trapp, Director of the South Dakota Brand Board (Board), was present to address the Committee. She provided a brief overview of the Board. The Board operates solely on the funds generated by the programs they administer. Revenue comes from brand registration fees, transfer fees and renewal fees. Ms. Trapp reviewed the [SD Brand Board Report](#) explaining each table within the report.

Representative Hunhoff asked about the Board's analysis of the data in this report and if they've brought forth any recommendations. Ms. Trapp advised that they are very conscientious of the inspection fee and are currently fully staffed for the inspectors. Ms. Trapp advised that they see a better working relationship between Sheriff's Departments and the brand inspectors. There have been conversations about having a

brand investigator out in Rapid City. Ms. Trapp feels South Dakota is near the top when compared with other states.

Item 5 – Bureau of Finance and Management to discuss the process for preparing the Sales and Use Tax Exemption information in the Governor’s Budget Summary Book

- [Sales Tax Exemption Information Doc.8](#)

Jim Terwilliger, Deputy Commissioner and State Economist with the Bureau of Finance and Management (BFM), was present to address the Committee. He reviewed the [tax expenditure report](#) which is a part of the Budget Summary Book. He provided a history of sales tax exemptions. There was a summer study in 2011 where all sales tax exemptions were reviewed with a focus on 16 exemptions. They update the amounts about every other year and they are estimates based on the data available at the time. An update has not been done since 2015 and the figures were increased from last year due to the increase in the tax rate.

Item 6 – Future meeting topics:

The following items discussed during the meeting will be revisited at the next meeting: additional information on local bank accounts, hear from the agencies that had findings in the Single Audit, hear from the Department of Transportation regarding the timing of payments to counties and provide an update on the consultant being hired to perform financial reviews of payments to the State from railroad operators.

Representative Steinhauer asked if the agencies have received guidance on what is expected from the performance management indicator reports. Mr. Flannery advised that he contacted all agencies up for review this year by phone and advised them to refer to last year’s report. Representative Hunhoff suggested reviewing three performance management indicator reports per Committee meeting.

Representative Anderson suggested looking in to the County Site Analysis Program and ask for the results. Representative Wismer would like to hear from the Bureau of Administration about the processes of building new office buildings. Representative Hunhoff is interested in receiving informational budgets.

A motion was made by Representative Anderson to adjourn, seconded by Representative Bartels. The motion passed on a voice vote.