



# MINUTES

## GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

**Third Meeting  
2011 Interim  
October 13, 2011**

**Room 413  
State Capitol  
Pierre, South Dakota**

The third meeting of the 2011 Interim Government Operations and Audit Committee was called to order by Chair Carson at 10:00 a.m., October 13, 2011, in LRC Room 413, State Capitol Building, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Senators Jeff Haverly, Deb Peters, Jean Hunhoff, Larry Tidemann, and Jim Hundstad; Representatives Lance Carson, Kent Juhnke, Paul Dennert, and Dan Dryden. Representative Charles Turbillville was excused.

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

### **Approval of Minutes**

*Representative Juhnke moved, seconded by Representative Dryden, the minutes of the August 23, 2011 meeting be approved. Motion prevailed unanimously on a voice vote. (Doc. 1)*

### **Governor's Office of Economic Development – Discussion of Various Other Funds (Doc. 2)**

Mr. Pat Costello, Commissioner of the Governor's Office of Economic Development (GOED), Mr. Cody Byrum, Deputy Commissioner of the GOED, Ms. Marty Davis, Business Manager, Governor's Office, and Ms. Kim Easland, Finance Director for the GOED were present to discuss the following funds. Mr. Costello first addressed the Committee regarding Company 3016 – Employer's Investment in South Dakota's Future Fund. Mr. Costello explained the purpose of the fund, and that money for formal proposals was obligated, while money for prospects was unobligated. GOED gets prospects from referrals and trade shows. Income for the fund comes from investment fees and unemployment insurance paid by employers. The Committee had questions on tracking the success of companies that received money from this fund. This fund was created in 1987. Ms. Marty Davis explained the fund balance in Company 3178 – Energy Conservation Loan Special Revenue Fund. Ms. Davis testified that the stimulus money received in FY 2010 had to be obligated. There was no further discussion on this fund. Mr. Costello discussed Company 6510 – Revolving Economic Development & Initiative Fund. Mr. Costello explained the function of this fund is to provide loans and incentives for companies to expand in South Dakota. The majority of the money in the fund at this time is obligated for approved loans. There was no further discussion on this fund. Mr. Costello then discussed Company 6527 – South Dakota Energy Infrastructure Authority. This fund has no funding source and is not active at this time. Mr. Costello testified keeping the fund for possible future development. There was no further discussion at this time.

### **Department of Health – Discussion on FY10 Single Audit Finding (Doc’s. 3, 7, and 8)**

Ms. Doneen Hollingsworth, Secretary of the Department of Health, was on hand to discuss the FY10 Single Audit finding and corrective action plan. Ms. Hollingsworth handed out 2 documents and testified to the enormous undertaking for vaccination statewide during the 2009-2010 H1N1 flu outbreak. Ms. Hollingsworth explained the criteria used for providing one time \$500 bonuses for employees who met criteria established in cooperation with the Bureau of Personnel. 155 employees received the bonuses, which totaled \$77,000. Committee discussion followed regarding the criteria used to decide who received the bonuses and the validity of using federal grant monies for the bonuses. The Committee would like to have the Bureau of Personnel appear at a future meeting to answer Committee questions regarding this audit finding.

### **Department of Labor and Regulation – Procedures for Handling Mediation of Contract Disputes Involving Public Employees (Doc’s. 4 and 9)**

Mr. James Marsh, Director, Division of Labor and Management for the Department of Labor and Regulation provided a handout and answered Committee questions regarding the procedures the Department of Labor follows for handling mediation of contracts involving public employees. Mr. Marsh testified that there are typically 4-8 cases a year. If there is no solution the dispute can go to arbitration.

### **Committee Review and Follow-up Items (Doc. 10)**

Mr. Tim Flannery, Department of Legislative Audit addressed the Committee on the outcome of a meeting with the Attorney General regarding the Office of the State Engineer and SDCL 5-18B-10. Chair Carson was in attendance at said meeting and testified that the Attorney General did uphold the statute. The Attorney General suggested there was room for improvement in the process of issuing contractor payments. Mr. Flannery also handed out Document 10, which was a summary provided by the Associated General Contractors listing complaints against the Office of the State Engineer. The Committee questioned how to make progress in improving the process of communication between the Office of the State Engineers and the contractors. Chair Carson felt that progress was being made toward a solution. This topic will be re-visited in the future.

### **Department of Agriculture – Discussion of Various Other Funds (Doc’s. 5 & 11)**

Mr. Walt Bones, Secretary of the Department of Agriculture, Mr. Chris Peterson, Fiscal Officer for the Department of Agriculture, Mr. Kevin Fridley, Director, Division of Agriculture Services, Department of Agriculture, Mr. Lucas Lentsch, Director, Division of Agriculture Development, Department of Agriculture, Mr. Jeremy Freking, Executive Director for the South Dakota Soybean Research and Promotion Council, and Mr. David Iverson, Board Chairman for the Soybean Research and Promotion Council were present to discuss the following funds. Mr. Fridley testified on Company 3050 – Weed and Pest Control Fund. Mr. Fridley explained the purpose of the fund, how the revenue for the fund is generated, and that the majority of the money in the fund goes to the counties for weed and pest control. Mr. Fridley also explained that the fluctuation in the fund balance is due to the license fees coming in at different times of the year. There was no further discussion. Mr. Lentsch addressed the Committee regarding Company 3052 – Rural Rehabilitation Fund. Mr. Lentsch provided a handout explaining an overview of financial programs of the Department of Agriculture and South Dakota Value Added Finance Authority. Mr. Lentsch explained the background and purpose of the fund. Mr.

Lentsch also explained that these programs are advertised through agriculture lenders, the State Fair, and various agriculture trade shows. Mr. Lentsch testified that approximately 3.5 million dollars are loaned out at this time at 3 – 4% interest. Mr. Lentsch stated that his focus is to grow this fund through advertising and selling the programs. There was no further discussion. Mr. Lentsch also addressed the Committee regarding Company 3052 – South Dakota Certified Beef Fund. Established in 2004, the South Dakota Certified Beef Fund is funded by enrollment/renewal fees by cattle producers registering their cattle. The cattle must be born, raised, and harvested in the State of South Dakota to be enrolled. At this time approximately 10,000 cattle are registered by approximately 100 cattle producers. The Committee requested the Department of Agriculture provide documentation on the history of the program. Mr. Jeremy Freking, Executive Director for the South Dakota Soybean Research and Promotion Council and Mr. David Iverson, Chairman of the Board of Directors for the South Dakota Soybean Research and Promotion Council testified regarding Company 3054 – Soybean Research & Promotion Fund. Mr. Freking passed out a handout explaining the function of the South Dakota Soybean Research and Promotion Council. South Dakota produces approximately 57% of the soybeans exported out of the United States. 25% of that 57% go to China. Mr. Freking testified that the excess money in this fund is due in part to the increase in the market price for soybeans. The money in this fund is used primarily for research and promoting the demand for soybeans. There was no further discussion at this time.

#### **Department of Corrections – Discussion of Various Other Funds (Doc. 6)**

Mr. Scott Bollinger, Finance Office, Department of Corrections was present to address the following funds. Mr. Bollinger testified on Company 3011 – Parental Support. Mr. Bollinger explained the purpose of the fund. Mr. Bollinger testified to Company 3023 – Department of Corrections Miscellaneous. Mr. Bollinger explained this fund as a catch-all fund. The fund is made up of some endowment funds, commission from the commissary, charges for inmate work release, cost of incarcerations, and various other things inmates are charged for. Some Committee discussion followed. Mr. Bollinger then discussed Company 6504 – Prison Industries Revolving Fund, also known as Pheasantland Industries. Mr. Bollinger explained this fund as an enterprise fund that generates its own revenue. Approximately 50% of the revenue comes from license plates, with book-binding, sign making, braille books, and limited printing also providing revenue for this fund. Mr. Bollinger testified to commitments of approximately \$2.8 million to the Rapid City minimum unit and the new vendor management system called Correction Offender Management System (COMS). Mr. Bollinger also stated the Rapid City minimum unit should have all inmates and staff in the unit and operational by April 1, 2012. There was no further discussion at this time.

#### **Working Draft Copy of Annual Report (Doc. 12)**

Mr. Tim Flannery addressed the Committee with the draft copy of the GOAC Annual Report. Mr. Flannery will revise the draft to include more detail on the outcome and follow-up of several topics and email it to all members of the Committee for final approval. *Representative Dryden moved, seconded by Senator Haverly, to allow Representative Carson to approve the final copy of the GOAC Annual Report 2011 for presentation to the Executive Board on October 25, 2011. Motion prevailed unanimously on a roll call vote.*

### **Future Items for Discussion**

- Review selected Blue Book funds for FY 2011
- Bureau of Personnel – State policies regarding bonuses
- Office of the State Engineer and the Associated General Contractors of South Dakota-Building Chapter
- Status of loans made to Pierre/Ft. Pierre and Dakota Dunes communities due to flooding along the Missouri River

### **Future Meeting Date**

The tentative date for the next Committee meeting was scheduled for December 7, 2011.

*Representative Dryden moved, seconded by Senator Haverly to adjourn the meeting. Motion prevailed unanimously on a voice vote.*

The Committee adjourned the meeting at 4:10 p.m.



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