

**REPORT OF THE
GOVERNMENT OPERATIONS AND AUDIT COMMITTEE
2017**

Draft

COMMITTEE MEMBERS

**Senator Deb Peters, Chair
Representative Jean Hunhoff, Vice Chair**

**Representative David Anderson
Representative Craig Tieszen
Representative Wayne Steinhauer
Representative Susan Wismer**

**Senator Justin Cronin
Senator Neal Tapio
Senator Stace Nelson
Senator Billie Sutton**

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Draft

COMMITTEE RESPONSIBILITIES

The Government Operations and Audit Committee was established by South Dakota Codified Law (SDCL) 2-6-2. The Committee is appointed at each regular session of the Legislature. The Committee consists of ten members, five members from the Senate appointed by the President Pro Tempore of the Senate, one of whom shall be a member of the Judiciary Committee and five members from the House appointed by the Speaker of the House, one of whom shall be a member of the Judiciary Committee.

The responsibilities of the Committee are:

- To inquire and review any phase of the operations and the fiscal affairs of any department, institution, board or agency of the state;
- To examine records and vouchers, summon witnesses, examine expenditures and the general management of departments, as deemed necessary;
- To review the Single Audit Report of the State of South Dakota and separately issued agency audit reports;
- To review the annual report of the South Dakota 911 Coordination Board and the Brand Board;
- To review the annual reports from each Department administering the funds received from the Building South Dakota Fund;
- To review compiled authorizations to derive a direct benefit from a contract, as collected by the Bureau of Human Resources;
- To review compiled authorizations to derive a direct benefit from a state authority, board, or commission contract, as collected by the Auditor General;
- To review the annual work plan and report of the State Board of Internal Control;
- Develop and implement a performance management review process to evaluate the efficiency and effectiveness of State agencies;
- Review the annual accountability report from the Technical Institutes;
- Review limitations on use relating to the University Centers off-campus sites in Pierre, Rapid City, and Sioux Falls and make recommendations to the Legislature regarding these limitations;

- To make a detailed report to the Senate and House of Representatives and submit a copy of its report to the Appropriations Committee of each House of the Legislature at the next succeeding session of the Legislature or any special session of the Legislature upon request of the body.

COMMITTEE ACTIVITY

Performance Reports

Senate Bill 120, 2017 session, assigned the Government Operations and Audit Committee the responsibility to develop and implement a performance management review process. The Committee established a schedule whereby each state agency presents their performance indicators to the Committee once every three years and the below agencies were selected and reviewed during the 2017 interim period. A subcommittee of members was formed to work with agencies to create a uniform approach in the development of their unique performance measures. The Committee's performance management review process is a work-in-progress as the Committee provided feedback to each of the agencies on expectations and some agencies were asked to make changes and appear a second time in front of the Committee.

Bureau of Human Resources

The Commissioner of the Bureau of Human Resources presented information on six performance indicators in support of State government agencies:

1. Provide recruiting awareness and applicant and employee selection services
2. Maintain comprehensive compensation benchmarking and employee classification system
3. Design and maintain a competitive, cost-effective health plan and flexible benefits for employees
4. Provide performance management tools and facilitate annual evaluations
5. Assist agencies with employee engagement
6. Provide training and career development for employees

Department of Revenue

The Secretary of the Department of Revenue described their vision to create an open and collaborative environment that provides professional customer service, contributes to a favorable economic climate, and is accountable to the citizens of South Dakota. The four strategic directions of the Department are:

1. Employees: Engaging and developing our team
2. Resources: Managing resources to maximize return on investment

3. Insights: Leveraging information through data analytics to support decision making
4. Partnerships: Developing and strengthening the department's relationships

Bureau of Information & Telecommunications

The Commissioner of the Bureau of Information & Telecommunications described the Bureau's vision, through highly motivated staff, to be a valued partner in providing technology solutions, services and support that directly contributes to the success of their clients. To accomplish this vision the Bureau has three goals:

1. Provide a reliable, secure and modern infrastructure
2. Deliver valued services at economical costs
3. Build and retain a highly skilled workforce

Department of Social Services

The Secretary of the Department of Social Services explained their mission to strengthen and support individuals and families by promoting cost effective and comprehensive services in connection with partners that foster independent and healthy families. The Department described five strategic plan outcomes:

1. Connections to work
2. Access to healthcare
3. Caring for people in the most cost effective manner
4. Permanency and safety for children
5. Program integrity

Department of Health

The Secretary of the Department of Health explained their mission to promote, protect and improve the health of every South Dakotan. The Department described five strategic goals:

1. Improve the quality, accessibility, and effective use of healthcare
2. Support life-long health for South Dakotans
3. Prepare for, respond to, and prevent public health threats
4. Develop and strengthen strategic partnerships to improve public health
5. Maximize the effectiveness and strengthen infrastructure of the Department of Health

Department of Labor and Regulation

The Secretary of the Department of Labor and Regulation explained their mission to promote economic opportunity and financial security for individuals and businesses. The Department described three strategic goals:

1. Qualify, responsive and expert services – Indicator, entered employment, which identifies the number of workers connected to employers and positions through job services. Indicator - percent of unemployment insurance payments made in 14 days.
2. Fair and equitable employment solutions – Indicator, retained employment after six months, which identifies how people are fitting into the positions they connected them to with employers.
3. Safe and sound business practices – Indicator, total practitioners from Boards/Commissions and Regulation Divisions reflecting the number of individuals and businesses which must be reviewed to ensure proper compliance with established laws.

Department of Human Services

The Secretary of the Department of Human Services explained their mission to enhance the quality of life of people with disabilities, in partnership with its stakeholders. The Department described three goals:

1. Provide individualized services to support people with disabilities to help them meet the goals they choose.
2. Raise awareness of the resources available to support people with disabilities through education and advocacy.
3. Retain a knowledgeable and prepared workforce with a high level of engagement to support the department's mission.

Brand Board

The Director of the South Dakota Brand Board was present to provide the Committee the State Brand Board Annual Report and answer Committee questions. She reported that the Brand Board receives no General Fund appropriations and operates entirely on brand inspection fees, brand transfers, and renewal fees.

The annual report contained information on the number of livestock inspected during the calendar year, the fees collected, the number of holds, missing or stolen livestock, recovered strays, livestock investigations, and brand registration activity. The Director reported that 1,662,495 head of livestock were inspected in calendar year 2016, as compared to 1,581,415 inspected in calendar year 2015.

The Committee had additional questions about the cost of investigation services provided by the Division of Criminal Investigation (DCI). The Director and a DCI Supervisor appeared before the Committee a second time to answer these questions. The Committee will continue to review the operations of the Brand Board.

Specific Matters Pertaining to Various State Agencies

Legislative Research Council discussed the statutory authority of the Committee

Legal Counsel from Legislative Research Council (LRC) described the Committee's investigative authority as granted to the Committee by the Legislature. LRC referred the Committee to South Dakota Codified Laws 2-6-2, 2-6-4, and 2-7-6. LRC explained the Committee can summons any department, institution, board, or agency of the State for the purpose of enacting, amending, or repealing legislation. The investigatory authority of the Committee is limited to the determination of public policy. LRC cautioned the Committee, in the process of exercising their authority, that investigations relate to public policy and not criminal or civil matters. A question was raised about the authority of the Committee to summons local government board members and individuals from private entities. LRC believed the Committee could invite these individuals to testify, however, a summons to appear would most likely be challenged in court. The Attorney General agreed with LRC's legal opinion on this question and believed the statutes have limitations beyond departments, institutions, boards, or agencies of the State.

Unified Judicial System, Department of Corrections and the Department of Social Services discussed the implementation of the Juvenile Justice Public Safety Improvement Act

The Committee learned about efforts being made to implement the Juvenile Justice Public Safety Improvement Act (JJPSIA). The State Court Administrator explained the reforms are in their early stages and progress is being made. The reforms seek to prevent youth involved with the system from future involvement, improve the outcomes of youth by expanding access to community-based programs that have been proven to work, target residential placement towards youth who are not a risk to public safety, and ensure the quality and sustainability of the JJPSIA reforms.

The Committee expressed concerns about additional burdens being placed on the communities and the availability of services in the communities. The Department of Social Services explained they are still in the process of ramping up community based services, such as functional family therapy, moral reconnection therapy, and aggression replacement training. The purpose of these services is to keep youth in their communities and prevent costly out-of-home placement. The Committee encouraged the agencies to better promote the programs available in the communities. The Committee plans to continue to monitor the implementation of the JJPSIA in the future.

Department of Social Services and the Department of Corrections discussed the methamphetamine treatment programs

The Deputy Secretaries for the two agencies described two different methamphetamine treatment programs in the State. The first being a community-based substance use disorder program available to individuals with a methamphetamine addiction. This program is available in Sioux Falls and Rapid City. They are considering adding an additional program in the central area of the State. The Intensive Meth program had a budget of \$830,487 in fiscal year (FY) 2016 and served 121 adults with a 69% completion rate (compared to a 43% completion rate at the national level). In addition, the Department of Social Services has developed a Meth Awareness Campaign “Meth Changes Everything” and a social media component to reach more individuals.

The second program discussed was the intensive methamphetamine treatment program in the Women’s Prison. The Department of Correction’s FY16 budget for this program and other related services was \$787,000. Ninety adult women were served in this program in FY16. The Committee asked a number of questions relating to the future plans for the program and may revisit this topic in the future.

The Department of Public Safety and the Office of the Attorney General discussed the Interstate Drug Trafficking Task Force

The Committee asked the Secretary of the Department of Public Safety to explain what the additional resources provided by the Appropriations Committee were being used for. The Secretary explained they have changed their strategy in fighting drug trafficking and are in the early stages of the initiative. This new strategy includes the development of the Fusion Center as a central hub for information and intelligence sharing. In addition, they have hired four additional Highway Patrol troopers to work with the DCI to specifically go after drug trafficking organizations. The Committee may revisit this topic in the future.

Department of Social Services discussed the current financial position of federal block grants and how potential federal government changes may impact South Dakota

The Deputy Secretary explained to the Committee the majority of federal funds in the Department’s budget are Medicaid. Medicaid is an entitlement program where federal funds are available as long as the individual meets program eligibility. Most of the remaining federal funds are block grants. Block grants are a fixed amount of federal funding. Amounts allocated to states are typically established on historical expenditures in a base year. The Deputy Secretary provided additional information on the seven largest block grants received by the Department:

- Temporary Assistance to Needy Families (TANF) – is used to fund a variety of programs including: TANF benefits to families, child welfare and specialized services for pregnant women and their children. The annual grant amount is \$21.3 million and the State has a

\$8.5 million maintenance of effort requirement. This grant amount and the maintenance of effort requirement have not changed since 1996.

- Children’s Health Insurance Program (CHIP) – is used to provide insurance to uninsured children. The annual grant amount is \$23.6 million and a State general fund match (8.54% in FFY2017) is required. The Affordable Care Act provided a temporary additional 23% increase in federal dollars until September 30, 2019.
- Child Care and Development Block Grant (CCDBG) – provides assistance to families with child care costs. The State received \$13.5 million in FY16 and had a \$5 million match requirement and an \$802 thousand maintenance of effort requirement. There are an average of 2,132 families using the program with payments being made directly to the child care provider.
- Low Income Home Energy Assistance (LIHEAP) – provides family assistance with heating expenses. The State received \$17.3 million in FY16 with no match or maintenance of effort required. The payments are made directly to the heating providers.
- Community Mental Health and Substance Abuse Treatment Grants – provides funding for community based mental health and substance abuse treatment services. The State received \$7.1 million in FY16 for the grant and had a maintenance of effort of about \$23 million. In FY16, 19,825 mental health and 12,297 substance abuse patients were served.
- Community Services Block Grant – assist with gaining employment, one-time assistance with utility connections, rent, deposits, transportation, etc. and is provided to Community Action Agencies. The State received \$3 million in FY16 with no matching requirement or maintenance of effort.
- Social Services Block Grant – supports home services for the elderly and for child welfare. The State received \$4.2 million and transferred \$2.1 million from TANF, for a total of \$6.3 million. There are no matching or maintenance of effort requirements.

The Deputy Secretary stated there were no significant changes anticipated in the near future, however, the Department will closely monitor the activity at the federal level and keep the Legislature informed of any changes.

Department of Social Services discussed the Administrator position at the Human Services Center

The Secretary of the Department of Social Services (DSS) informed the Committee that the current Administrator of the Human Services Center has resigned effective August 31, 2017. An interim Administrator has been hired and will start on August 14, 2017. The Secretary stated there is an ongoing national search for the position. The DSS has had initial interviews with candidates and is planning to bring them in for in-person interviews. The Committee asked a number of questions about the position, the qualifications required for candidates applying for the position, and the adequacy of the salary for this position. The DSS is hopeful that the position will be filled in the near future.

Overtime pay at the Human Services Center in Yankton

The Administrator of the Human Services Center (HSC) in Yankton appeared before the Committee to provide information on employee vacancies and the overtime compensation being paid at the HSC. The Administrator provided an overview of the makeup of the Center and the various programs at the HSC. The Administrator reported that at full capacity there are 556 full-time-equivalent employees (FTE) at the HSC and they currently have 39.5 vacancies. The Administrator reported that in the first eight months of FY17 the HSC has paid \$1.1 million in overtime pay, which is consistent with FY16. The Administrator reported they are recruiting sooner and offering sign-on bonuses to make them more competitive with the private sector. The Committee plans to continue to monitor employee vacancies and overtime pay at the HSC.

Overtime pay at the South Dakota Developmental Center in Redfield

The Director of the South Dakota Developmental Center (SDDC) in Redfield appeared before the Committee to provide information on employee vacancies and the overtime compensation being paid at the SDDC. The Director provided an overview of the makeup of the Center and the various programs at the SDDC. The Director reported there are currently 347.6 FTE with 184.5 direct support professionals. In FY16, direct support professionals were required to work four overtime hours every week and currently direct support professionals are required to work four overtime hours every two weeks. The Director reported in FY16 there was an average of 30 vacancies for direct support professionals and currently there are 10 vacancies. The Director reported that in the first eight months of FY17 the SDDC has paid \$541 thousand in overtime pay. In FY16 the SDDC paid \$1.1 million in overtime pay. The Director reported the increase in incentive pay, for the late shifts, has helped reduce the vacancies. The Committee plans to continue to monitor employee vacancies and overtime pay at the SDDC.

Bureau of Information and Telecommunications and the Department of Public Safety discuss infrastructure upgrades to the Public Safety Radio System

The Deputy Commissioner of the Bureau of Information and Telecommunications (BIT) informed the Committee of a notification from Motorola (the supplier of most of the State radios) that a network upgrade is planned for 2023 and any radios not equipped with the flash update would not be compatible with the new system. The Strategic Projects Director with Motorola Solutions estimated that new radios compatible with the new system could cost between \$2,000 and \$4,000 per radio. An Engineering Manager with BIT stated there are approximately 16 thousand Motorola radios in use and about 5,000 have already been upgraded. He stated the cost to the infrastructure for the State would be about \$11.8 million and would need to be completed by 2023. The Committee desired to see a plan going forward for the necessary upgrades and that BIT communicates with the Appropriations Committee.

Department of Human Services – Division of Rehabilitation Services discuss Federal Communication Commission Direct Video Calling

The Director of the Division of Rehabilitation Services described Telecommunication Relay Services (TRS) that allow persons with hearing or speech disabilities to place and receive telephone calls. He explained that a 1989 State Law requires the State to provide a telephone service for people who are deaf or hard of hearing or have speech impediments at no cost to the user. The Director discussed the trends in South Dakota. Traditional TRS and captioned telephone minutes are decreasing. Other technology, such as texting or facetime, has become more popular. The Committee asked why the State was not using Direct Video Calling offered through the Federal Communications Commission. The Director stated he would look into this program. The Committee plans to follow-up on this topic in the future.

Department of Game, Fish and Parks discuss the discontinued access to non-meandering waters in South Dakota

The Secretary of the Department of Game, Fish and Parks (GF&P) updated the Committee on the outcome of the Duerre vs. Hepler Supreme Court decision delivered on March 15, 2017. The decision reaffirmed that it is up to the South Dakota Legislature to determine the use of non-meandering water. He explained that nobody has superior rights to the water and that the GF&P cannot facilitate access to waters that overlie private land. In response to this decision, GF&P has blocked access to boat launches on 25 bodies of water, and are no longer surveying or restocking these waters. The Committee had numerous questions on the significance of this issue, the risks to public safety, and the views of those involved. The Secretary emphasized the importance of the issue and suggested a Special Session to deal with the issue.

Bureau of Human Resources

Conflicts of Interest

The Committee reviewed the second annual compilation of conflict of interest authorizations called for in House Bill (HB) 1064, passed during the 2015 Legislative Session. Under HB 1064 a governing body may authorize an officer or employee of a State agency to benefit from a contract if the contract is fair, reasonable, and not contrary to the public interest; these authorizations are required to be filed with the Commissioner of the Bureau of Human Resources (BHR) and presented to the Committee annually. The Committee reviewed 14 approved authorizations (waivers) for the July 1, 2016 through June 30, 2017 reporting period. The Committee plans to review approved and denied waivers annually.

Length of time between employment application and job offer

The Commissioner discussed the stages of the hiring process. The hiring timeline can take anywhere from 10 days to 40 days. She explained variables that impact the timeline including Civil Service job requirements, veterans or disability preferences, and background checks. She

also provided a comparison to National averages (the State's average is below the National average). The Committee was concerned that the State was losing potential employees to private businesses because the hiring process was taking too long. The Commissioner explained that BHR has groups looking at options for speeding up the process. The Committee plans to revisit this topic in the future.

Bureau of Administration

Obligation Recovery Center – To be completed after the October meeting

State Board of Internal Control

The Commissioner of the Bureau of Finance and Management (BFM) provided the Committee an update on the activity of the State Board of Internal Control (SBIC). She explained that the process of establishing and maintaining an effective system of internal controls will take years. The SBIC requires that state agencies comply with all applicable laws, regulations, and internal control policies regarding conflicts of interest. State agencies are required to develop plans to inform and make accessible the conflict of interest laws to ensure their employees are in compliance. She described the improvements that have been made by the SBIC. The SBIC has established internal control officers in each state agency, grant agreements with subrecipients are now available to the public, and the Auditor General submits to the SBIC a copy of any non-profit audit reports sent to a state agency identifying audit findings pertaining to federal award programs. The state agency responsible for those subrecipients has come before the SBIC with a management decision on how to address each issue. In addition, the SBIC has established the Federal Grant Compliance Workgroup. One objective of the workgroup is to create tools to assist state agencies with federal grant compliance. These tools include:

- A contractor or subrecipient relationship determination checklist to help agencies determine the type of relationship that exists.
- A pre-award risk assessment tool that measures risk attributes of a subrecipient before the state agency enters into a grant agreement with the subrecipient. This tool will also help the agency determine the proper type of monitoring required of a particular subrecipient.
- A subrecipient monitoring guide to help agencies develop sufficient monitoring plans.
- A subrecipient agreement template that incorporates key provisions to help ensure compliance with federal regulations and help provide uniformity with all agencies and subrecipients.

The Commissioner stated the SBIC will continue to develop tools to reduce the State of South Dakota's exposure to risk as well as strengthen the internal control environment within the State. The Committee will monitor the State Board of Internal Control's activity on an annual basis.

Department of Transportation

Operations of the State owned rail line

The Secretary of the Department of Transportation (DOT) appeared before the Committee and answered numerous Committee questions about the operation of State owned rail lines. The Secretary explained the management and oversight of State owned rail lines are performed by the South Dakota Rail Board. The State owns 406 miles of active rail lines and 124 miles of inactive lines. The State has six different leases on the active lines and they are generally with regional rail authorities. The lease rates are generally set at 1% of gross freight revenue between State and regional rail lines and the regional rail lines generally charge the operators 1.5%, retaining the .5%. The revenue generated has been used to maintain the rail lines and replace bridges. The Committee questioned the process implemented by the DOT to ensure the proper payment amounts are calculated and submitted to the State. The Secretary explained operators send in supporting documentation and the DOT reviews the documentation. He added the DOT is continuing to develop procedures in this area. The Committee was also concerned about how the DOT ensures ongoing contract compliance and plans to continue to monitor the Department's efforts in this area.

Department of Revenue

The application of tourism tax

The Secretary of the Department of Revenue (DOR) was invited to a Committee meeting to explain the application of tourism tax. He stated tourism tax is collected on tourism related businesses from June to September and is used to fund tourism related activities. Hotels collect the tax year-round. The Secretary discussed Falls Park as being a tourist attraction, but that the Sioux Falls Farmer's Market located at Falls Park was a unique situation. He stated the DOR reevaluated the situation and clarified that the Sioux Falls Farmer's Market, along with other Farmer's Markets, do not need to remit tourism tax. The Committee was satisfied with his explanations.

Audit Division

The Secretary of the DOR and the Audit Division Director presented information on the audit selection process of the DOR Audit Division. The Secretary explained they typically audit the top 100 businesses annually and perform audits in all business types or industries. The Director explained that high risk businesses are factored in to their selection process. Businesses are considered high risk if they have had past compliance issues with assessments over \$10,000, poor internal controls, high staff turnover, and other types of issues. The Secretary stated there were approximately 2,500 audits conducted in FY17 with about 1,000 businesses being in South Dakota. The Committee expressed concerns from business owners that they are afraid to call with questions because it could be used against them in an audit. The Secretary stated that the audit selection process does not include auditors reviewing the questions asked of the

Business Tax Division, but that analytical procedures drive the selection process. The Committee asked to be provided the results of a survey being conducted by the South Dakota Retailers Association and plans to revisit this topic in the future.

Board of Regents

Operational policies of acceptance and admissions of undocumented students

The Executive Director of the Board of Regents (BOR) explained the admissions process for undergraduate and graduate students at South Dakota Universities. Applicants not fulfilling the resident requirements are charged the non-resident tuition rates. Male students are required to certify on the admissions application that they have applied with the Military Selective Service registration requirement. The Committee was concerned about undocumented students and whether or not any universities were considered sanctuary colleges. The Executive Director indicated there were no sanctuary campuses in South Dakota. In addition, the Committee wanted assurance the universities were complying with SDCL 13-53-1.1 which requires all male students to file with the institution a statement of registration compliance.

University Centers

In accordance with House Bill 1005, 2017 Session, the Committee reviewed annual accountability reports for each of the University Centers. The Director of Finance for the Board of Regents presented operating statements for each of the University Centers, along with enrollment data for fiscal years 2013 through 2018. Also included in the reports was 2018 budget information. Each University Center is structured differently financially and the operating statements and footnotes attempt to show the differences. The Director explained some of the challenges facing each of the University Centers. They are moving away from the model used for the last three years. The Committee will continue to review the University Centers in the future.

The Committee toured the University Center Sioux Falls on June 6, 2017. The Committee learned about the various programs being offered as well as future development plans at the University Center Sioux Falls.

Board of Regents Federal Grant Control Process

The Executive Director explained State institutions receive significant federal grant dollars and it is very important that they have proper procedures in place. The System Vice President of Academic Affairs gave an overview of specific grants that the Committee was interested in reviewing. The Associate Vice President of Research at the South Dakota State University reviewed the life cycle of a federal program and stated they follow the Uniform Guidance in the administration of each federal program. The Committee was concerned about who was responsible for federal compliance and contract compliance. The Associate Director of Grants

and Contracts at SDSU stated the principal investigator is responsible and that her office is responsible for post-award management at SDSU.

Department of Labor and Regulation Insurance Tax Credit Scholarship Program

The Director of the Department of Labor Division of Insurance provided background information on the insurance tax credit scholarship program. The Director explained in tax year 2016, insurance companies donated a total of \$325,000 resulting in a tax credit of \$260,000. Former Senator Phyllis Heineman shared stories of families who benefited from scholarships provided by the program. She explained four insurance companies donated and 295 scholarships were awarded during the 2016-2017 school year. Most of the scholarship amounts were from \$500 to \$1,300, and did not exceed tuition fees. No student that applied and was eligible was turned down. Former Senator Heineman thanked the Legislature for making this scholarship program possible.

Juvenile Corrections

The Committee is charged with the responsibility to review any findings of abuse or neglect of juveniles in a juvenile correctional facility.

Since the Star Academy was closed on April 8, 2016, there were no Juvenile Corrections Monitor reports to the Committee during the 2017 interim. Senate Bill 82, 2017 Session, required the Department of Corrections to compile a confidential report of all allegations of abuse and neglect of individuals under the jurisdiction of the Department of Corrections within private contracted facilities. The Director of Juvenile Services presented the report for the time period from July 1, 2016 through June 30, 2017. Eight cases were reported to the Committee during the above time period. The Committee requested future reports provide more information on trends by facility.

Audit Reports and Special Review Report

South Dakota Single Audit Report for FY16

The Committee reviewed the South Dakota Single Audit Report and other separately issued audit reports for the fiscal year ended June 30, 2016.

Financial and compliance audits involve testing financial transactions of the state to determine that money is properly accounted for and expended in accordance with state and federal laws and regulations. All audits conducted of state agencies were consolidated and reported in the Single Audit Report. The Single Audit Report includes the Comprehensive Annual Financial Report for the State of South Dakota prepared by the Bureau of Finance and Management, a schedule showing the federal awards administered by the state and related expenditures, and audit findings and recommendations issued by the Department of Legislative Audit.

The Single Audit Report was issued in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards issued by Comptroller General of the United States, U.S. Office of Management and Budget (OMB) Uniform Guidance, and South Dakota Codified Laws. A copy of this report may be obtained from the Department of Legislative Audit.

The Committee reviewed financial reporting, internal control and compliance deficiencies written on ten state organizations, containing twenty-three recommendations for corrective action. Sixteen recommendations related to violations of federal laws and regulations; and, seven recommendations related to inadequate internal control procedures over receipts, revenue collections, expenditures, and financial reporting.

The following represents the state agencies with audit findings and recommendations from fiscal years 2016 and 2015 and the implementation of fiscal year 2015 audit recommendations:

State Agency	Recommendations		
	Fiscal Year <u>2016</u>	Fiscal Year <u>2015</u>	FY2015 <u>Imple-mented</u>
Bureau of Finance and Management	0	2	2
Department of Revenue	2	4	4
Soybean Research & Promotion Council	2	2	1
South Dakota Corn Utilization Council	2	2	0
Ellsworth Development Authority	1	0	N/A
Secretary of State	0	3	3
Department of Transportation	2	3	3
Department of Social Services	3	2	2
Department of Education	3	3	3
Department of Human Services	1	0	N/A
Department of Game, Fish and Parks	6	0	N/A
Housing Development Authority	1	0	N/A

N/A This agency did not have any FY2015 audit recommendations.

The Committee had additional questions regarding the Department of Game, Fish and Parks (GF&P) audit findings for the Fish and Wildlife federal program. The Finance Officer for the GF&P appeared before the Committee and explained the corrective action plans the Department is implementing. The Committee plans to follow-up on the Department's corrective action plans.

South Dakota High School Activities Association

The Committee reviewed the FY16 audit report of the South Dakota High School Activities Association (SDHSAA). The Committee had questions regarding the SDHSAA's desire to create a separate foundation. The Committee expressed concern for the purpose of a foundation and the creation of a different Board to oversee the activity of the new foundation. Committee members did not believe schools should be putting money into a foundation. The Executive Director of the SDHSAA explained the SDHSAA Board is forming a committee to research this topic further and make recommendations to the SDHSAA Board. The Committee plans to revisit this topic in the future.

The Committee also heard about the SDHSAA's process for the selection of tournament locations throughout the State. A Site Selection Committee works three years into the future and makes recommendations to the SDHSAA Board for their final approval.

Mid Central Educational Cooperative Special Review Report and the Mid Central Educational Cooperative Single Audit Report for FY15

The Department of Legislative Audit (DLA) provided an overview of work conducted related to funds that were passed through the State of South Dakota Department of Education (SDDOE) and expended by Mid Central Educational Cooperative (MCEC) and the American Indian Institute for Innovation. The work performed resulting in the Special Review Report builds upon audits of the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) done as part of the State of South Dakota Single Audits for fiscal years 2014 and 2015 and a Single Audit DLA conducted of MCEC for fiscal year 2015. DLA reported their review did not involve determining whether crimes were committed as that is the responsibility of law enforcement agencies. Additionally, their review did not involve evaluating whether State and federal programs administered by MCEC were effective in achieving expected results and outcomes. The objective of DLA's review was to determine whether funds received by MCEC had been adequately accounted for and that expenditures of those funds were properly supported by documentation. The DLA discussed each finding contained in the MCEC Special Review Report.

The first finding reported that the MCEC Governing Board and Director did not provide adequate oversight of related parties and conflicts of interest.

The second finding reported that there were unauthorized withdrawals from MCEC's checking account from January 2007 through September 2015.

The third finding reported MCEC did not have adequate internal controls in place to properly identify subaward agreements and monitor subrecipient compliance with federal regulations.

The fourth finding reported MCEC did not comply with the matching requirements of the GEAR UP grant.

The fifth finding identified unsupported salaries and wages were charged to the GEAR UP grant.

The sixth finding identified Teacher Quality grant subaward agreements were not approved by the MCEC's Governing Board and Teacher Quality expenditures were not adequately supported.

The seventh finding identified inadequate supporting documentation for contractual services and payroll charges to the Wakan Gli grant. In addition, there was no evidence that MCEC entered into contracts or agreements with the partners or contractor identified in the Wakan Gli grant application.

The eighth finding identified information reported to the U.S. Department of Education in MCEC's indirect cost rate agreement was inaccurate.

The DLA explained that the findings included in the Special Review of MCEC were also included in the MCEC Single Audit Report for FY15, as well as two additional findings relating to financial reporting.

The Committee had numerous questions about the reports over the course of the interim period. In addition, the Committee questioned various employees and former employees of the SDDOE, past MCEC Governing Board Chairs, past GEAR UP Advisory Board members, the independent public accounting firm's partner in-charge of the MCEC audits prior to FY15, and the Attorney General. The Attorney General provided an update on the pending criminal charges filed against three former MCEC employees. At this time, the courts have not set trial dates. Based upon the Committee's review of the DLA reports and answers provided from additional Committee questions, the Committee drafted legislation for consideration during the 2018 Session.