

MINUTES

Government Operations & Audit Committee

Representative Jean Hunhoff, Chair
Senator Deb Peters, Vice Chair



**Fifth Meeting, 2018 Interim
Tuesday, September 25, 2018**

**Room 414 – State Capitol
Pierre, South Dakota**

The fifth meeting of the 2018 Interim Government Operations and Audit Committee (Committee) was called to order by Chair Hunhoff at 8:30 a.m., September 25, 2018, in room 414, State Capitol Building, Pierre, South Dakota.

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

Staff members present were Martin Guindon, Auditor General, and 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

Senator Peters moved, seconded by Representative Bartels, the minutes of the August 28, 2018 meeting be approved ([Minutes 8-28-18](#)). Motion prevailed unanimously on a roll call vote.

Item 1 – Department of Legislative Audit:

- To provide a list of State and federal programs for continued Committee discussion of review of program outcomes
- [List of federal programs Doc.2](#)
- To present a draft program risk evaluation form
- [Risk evaluation Doc.2a](#)
- To provide information on rule making by the various State authorities
- [Rulemaking information Doc.2b](#)
- To provide the GOAC Blue Book for fiscal year 2018
- [Other Funds FY2018 Doc.2c](#)
- [Ranking of Other Funds Doc.2d](#)

Tim Flannery, State Government Audit Manager with the Department of Legislative Audit (DLA), was present to address the Committee. He provided a list of federal programs which were taken from the FY2017 State of South Dakota Schedule of Expenditures of Federal Awards (SEFA) and sorted by dollar amount ([list](#)). This list does not include sub-awards; they can be found in the SEFA.

Representative Hunhoff asked for Committee input on criteria they should use to determine which grants to look at. She advised the focus would be on performance and does not want to duplicate efforts.

Senator Tapio asked if there was a place for citizens or employees to raise a red flag. DLA has a place on their website for anyone to raise a red flag. There have been reports submitted through the website and the audit managers have reviewed them and determined the best way to proceed. DLA will provide information to the Committee when they deem appropriate. Marty Guindon, Auditor General with the Department of Legislative Audit, explained how DLA responds to the issues brought forward.

Mr. Flannery discussed DLA's assessment of risk of federal programs as a part of the Statewide Single Audit. They are required to test a minimum of 40% of the total federal expenditures of the State. Anything determined to be high risk has to be audited. If a Legislator brings forward concerns about a program, it could be audited. If State funds are matched with federal funds, both types of funds are audited. Some of the State's programs are audited with the State's Comprehensive Annual Financial Report. The [risk evaluation](#) document provides DLA's financial compliance perspective.

Representative Hunhoff discussed that there needs to be financial accountability as well as outcome accountability and hopes the Committee can help tie those together. Mr. Guindon explained that clusters are a group of programs that are similar in nature or related and can be audited as a group. Mr. Guindon advised that DLA will bring things of concern to the Committee on an informal basis when the need arises.

Mr. Flannery advised that DLA researched and compiled a list of authorities and entities and their rulemaking abilities ([rulemaking info](#)). He advised that they have identified those that are required to follow the administrative procedure and rules processes and those that are not required.

Mr. Bob Christianson, State Government Audit Manager with DLA, was present to address the Committee. He advised that the hard copy of the 2018 GOAC Other Fund Information by Agency book (GOAC Blue Book) is not completed yet, but an electronic draft was provided ([2018 Blue Book](#)).

Mr. Christianson explained that the State's accounting system is on a cash basis and what was included in the GOAC Blue Book. He uses the information in the Other Fund ranking to determine where there have been fluctuations from last year. The balances in State's Cash Flow Portfolio show where the State invests idle cash of all the funds. These are funds that have been appropriated but have not been spent yet. The next section lists the Other Funds of the State listed by agency. This provides four years of balances and general information on how the fund was created, budget information and relevant transfer information. The next section is where the Board of Regents funds will provide information on their cash balances and their funds. They utilize a separate accounting system and prepare the information, which is not available yet. The last section is the Budget versus Actual Report which shows the general, federal, and other funds of the State.

Representative Hunhoff asked if he identified anything that the Committee should review further. Mr. Christianson advised that there are funds that are not on the State's accounting system. He included information from last year's audited financial statements to provide more information.

Mr. Christianson advised that the [Ranking of Other Funds](#) document shows all funds with changes to equity of \$500,000 or more. He reviewed the first fund and provided an explanation for the change. Representative Steinhauer asked for more information on the Fleet & Travel Management fund. Mr. Christianson explain that this fund, as well as several other internal service funds, are operated as proprietary funds where they are cost recovery accounts. Mr. Christianson advised that the Fleet & Travel Management's under recovery was probably due to a time period where their rates were not enough to cover their costs, and they will most likely need to do a rate adjustment. He advised that fluctuations are typical with internal service funds.

Representative Steinhauer had suggested looking at a multiyear average of dollars spent against their current cash balance, to help identify funds that might go negative and need the Committee's attention. The Committee discussed different ways to address this, as well as when it should be addressed.

Item 2 – Bureau of Administration to:

- **Report on performance management indicators**
- **Provide follow-up information on new properties leased by the State over the last 10 years**
- [Letter to Bureau of Administration Doc.3](#)
- [BOA Letter to Chair Doc.3a](#)
- [BOA Performance Measures Doc.3b](#)

Scott Bollinger, Commissioner of the Bureau of Administration (BOA), was present to address the Committee. He explained that the performance metrics provided are initial items and they are a work in progress. Many of their items are tracked manually and it has been time consuming to gather historical data. One of the biggest drivers for the BOA is recoveries and rates. The BOA is cognizant of how they spend money, so they don't negatively impact other agencies. They typically review rates on a quarterly basis and try to keep them relatively level.

Representative Steinhauer suggested developing metrics to show why the BOA exists, what they are trying to do and how they measure against what they are trying to do. Mr. Bollinger explained the core level of service they provide and intend to do it to the best of their ability at the least possible cost. Representative Steinhauer encouraged Mr. Bollinger to consider the top three things they are trying to do and develop goals and show how they are performing. Mr. Bollinger advised they are in the middle of the Lean Process and metrics may change.

Senator Peters asked if it was still cost effective to maintain the State fleet. Mr. Bollinger feels that they are very cost effective at providing fleet services and are much lower when comparing to outside companies. Mr. Bollinger discussed the role of the Office of the State Engineer and the use of consultants. Representative Bartels advised reviewing their services, processes, and economies to ensure they are providing the best they can.

Item 3 – Obligation Recovery Center (ORC):

- **The Bureau of Administration to present the annual report of the ORC**
- **Unified Judicial System to provide their debt collection process before debt is turned over to the ORC**
- [Letter to Unified Judicial System Doc.4](#)
- [Obligation Recovery Center 2018 Report Doc.4a](#)

Scott Bollinger, Commissioner of the Bureau of Administration (BOA), was present to address the Committee. He reviewed the [Obligation Recovery Center 2018 Report](#). He noted that four additional agencies were added in FY18 and the Obligation Recover Center (ORC) discontinued doing business with Progressive Financial Services, Inc. Mr. Bollinger explained that when a debt is submitted to the ORC, they do not get the initial debt information. He advised that the ORC receives a lot of requests about the initial debt that are forwarded to the agency of record. It is the agencies responsibility to get the requested information to the debtor as quickly as they can.

Mr. Bollinger advised they are in year three of the collection process. State law allows the ORC to retain the debt for 180 days. If there is no reason to hang on to the debt after that point, it is turned over to the third-party collection agencies for a minimum of one year. It has been long enough that some of the debts may start coming back to the ORC, where they will determine whether to continue collection efforts or return to the original agency for final disposition.

Mr. Bollinger discussed the amounts collected in FY18 and explained why less went in to the general fund. He also reviewed the dollar value of payment plans. He discussed how the collection fees are remitted and paid to the third-party agencies. Mr. Bollinger reviewed in detail the collection activity during FY18.

Representative Bartels advised that the process of the agencies responding to debtor inquiries should be formalized and possibly tracked to ensure that they are responding to the inquiries and that it is in a timely manner. Senator Tapio suggested tracking wait time for people calling in to the ORC.

Mr. Bollinger compared center activities between FY17 and FY18. He advised that notifications are sent out for amounts of \$50 or more for hunting and fishing licenses and \$1,000 or more for motor vehicle registration and driver's license. Senator Greenfield asked for a breakdown between in-state and out-of-state debts. The debts sent to the ORC are just from State agencies.

Aaron Olson, Director of Budget and Finance with the Unified Judicial System (UJS), was present to address the Committee. He advised that UJS did not have a uniform statewide process for collecting debt prior to the ORC legislation.

Mr. Olson described the current collection process, advising that the debt comes from financial obligations ordered on a case at the time of sentencing. The Judge determines when the payment is due. If no payment is made 15 days after the due date, a notice of unpaid debt letter is sent to the individual. This letter includes the amount due and the payment options available. If no contact is made after a total of 45 days, a final notice letter is sent giving them 14 days to pay in full or make payment arrangements. It states that if no payment or arrangement is made, the debt will be referred to the ORC, and a 20% cost recovery fee will be added to the principal balance. Those amounts are broken out in the letter. If there has been no contact after the final 14 days, the debt is automatically transferred to the ORC by an electronic file. Once the debt has been transferred to the ORC, payments can only be made to the ORC.

Mr. Olson explained that they have had a process in place for about a year to address questions from the third-party collection agencies about the original debt. When there is a question, CGI Technologies emails a central email address at UJS that is checked by five clerks. The clerks usually respond to CGI within 24-48 hours. He feels that their process is working but is unsure of CGI's process to relay the information.

Mr. Olson advised that the ORC has been beneficial to the UJS, and they have had a lot of success with the notice process that they have put in place.

Item 4 – South Dakota High School Activities Association to provide historical information on activity with the South Dakota Community Foundation and High School Activities Association Foundation and answer Committee questions

- [Letter to SDHSAA Doc.5](#)
- [SDHSAA Handout Doc.5a](#)

Dan Swartos, Executive Director of the South Dakota High School Activities Association (SDHSAA), was present to address the Committee. He provided ten years of financial history in the [SDHSAA Handout](#). He discussed the pension activity and how it affected the General & Administrative (G&A) Operating Costs. Senator Peters asked for ten years of itemized detail for the G&A operating expenses.

Dr. Swartos discussed the dues that have been historically charged to schools, as well as the flat postage and subscription fee and the catastrophic insurance fee. Dr. Swartos advised the majority of SDHSAA's revenue comes from ticket sales from sub-state and state events and official registration fees. Discussion was had about 6-man football and the classification process. Representative Bartels encouraged the SDHSAA to be as transparent as possible.

Dr. Swartos provided a list of the contributions made to the SDHSAA Foundation, for a total of \$342,393. There have been interest disbursements, otherwise the interest has been reinvested. Senator Peters asked if there are written guidelines as to what the interest can be used for. Dr. Swartos explained he is an ex officio member of the High School Activities Association Foundation board that will determine what will be done with disbursements.

Item 5 – Department of Education:

- **To present the annual report of the Workforce Education Fund (SDCL 1-16G-49)**
- **Provide an update on the work completed to develop a dyslexia program plan**
- [Letter to Education Doc.6](#)
- [Workforce Education Fund Report FY2018 Doc.6a](#)
- [Dyslexia Information Doc.6b](#)

Matt Flett, Director of Finance and Management with the Department of Education (DOE), was present to address the Committee. He reviewed the Workforce Education Fund (WEF) [Annual Report](#) and provided an overview of the WEF. Mr. Flett discussed the Secondary Career and Technical Education (CTE) grants or Workforce Education Grants, their requirements and provided a list of grants awarded. He also discussed One-Time Education Enhancement Programs, including the Native American Achievement School Grants.

Representative Hunhoff asked if there was a tracking mechanism for CTE grant recipients after they graduate and for outcomes relating to the Native American Achievement School Grants. Laura Scheibe, Director of Career and Technical Education with DOE, was present to address the Committee. Ms. Scheibe advised they have not directly tracked them, and it could be difficult due to student privacy laws. Mary Stadick Smith, Interim Secretary of the DOE, was present to address the Committee. She explained that the Oceti Sakowin Essential Understandings and Standards are infused into what the schools are already

doing. Senator Tapio asked what the goal of the WEF is. Ms. Stadick Smith believes it is to improve the economy of the State.

Ms. Stadick Smith provided an update to the Committee on the [5 Year State Plan](#) to Support Struggling Readers. She provided history about how the dyslexia plan came about. The State recognizes dyslexia as a specific learning disability. A group of about 27 stakeholders met three times in 2016 and developed the 5 Year Plan. The Plan has four phases: identification of students with dyslexia, guidance and supports, connections with postsecondary education, and data and feedback. They are currently transitioning to using the Response to Intervention (RTI) model to identify children with dyslexia. With the help of the workgroup, DOE has developed a [brochure](#) about recognizing and addressing dyslexia and have updated their [dyslexia handbook](#). They have also had professional development activities for educators. They are connected with Dakota State University and hope to make more connections with postsecondary education. They would like to develop a certificate program so that more teachers have the knowledge and skillset to help struggling readers. DOE sends out a survey to the school districts where they ask educators how they identify students with dyslexia and the intervention methods they are using.

Linda Turner, Director of Special Education with the DOE, was present to address the Committee. She provided additional information about the dynamic of the workgroup. She advised that they participate in several outside groups and continually gather information and provide it to educators. Ms. Stadick Smith advised that they do not have specific funding for a DOE employee to deal with dyslexia specifically. Senator Greenfield encouraged DOE to continue to follow through with addressing the issue of dyslexia.

Ms. Stadick Smith advised that DOE received a federal grant to help address mental health issues in youth and to address gaps in identifying at risk students. It is called the Project Aware Grant and is a five-year grant. Representative Hunhoff proposed to the Committee to monitor and follow this grant through its whole process. Committee members agreed that this would be a good project for reviewing performance. She asked DOE to bring preliminary information to the November Committee meeting.

Item 6 – The Governor’s Office of Economic Development to present the annual reports of the Building South Dakota programs (SDCL 1-16G-49)

- [Letter to GOED Doc.7](#)
- [GOED Building SD Programs Doc.7a](#)

Scott Stern, Commissioner of the Governor’s Office of Economic Development (GOED), was present to address the Committee. He discussed the four programs funded by the Building SD Funds included in the [annual report](#). He provided background information on each program. Cassie Stoeser, Finance Director at GOED, provided accounting breakouts, performance measures, and budget drivers for each program for FY18. Grant applications are reviewed quarterly at Board of Economic Development meetings.

Mr. Stern explained that GOED has focused recruiting on four major industries: value-added agriculture, financial services, bioscience, and advanced manufacturing. He advised that they are hoping to see expansion in distribution projects. Mr. Stern advised that they do post audits to verify outcomes are achieved once a project is completed.

Item 7 – Department of Public Safety to present the annual report from the South Dakota 911 Coordination Board (SDCL 34-45-20)

- [Letter to Public Safety Doc.8](#)
- [FY2018 State 911 Coordination Board Report Doc.8a](#)

Shawnie Rechtenbaugh, Deputy Secretary for the Department of Public Safety (DPS), was present to address the Committee. The 9-1-1 Coordination Board (Board) [report](#) is submitted each year. The Board is made up of 11 members that are appointed by the Governor for three-year terms. Ms. Rechtenbaugh advised that there are 32 Public Safety Answering Points (PSAPs), including four tribal PSAPs. The annual report focuses on the 28 PSAPs within sheriff's offices or police departments, because they fall under State jurisdiction.

In 2017, the PSAPs answered 329,000 9-1-1 calls, as well as 1.2 million administrative calls. The Next Generation 9-1-1 System (NG9-1-1) is a major priority for the Board. They have installed a statewide phone system to all 28 PSAPs. They have been working on the network phase, updating to a digital network. Since May, they have updated 22 PSAPs to the new network. They are also working on meeting their data goal of 98% for the geographic information system (GIS) electronic database. Ms. Rechtenbaugh discussed legislation that has positively affected the Board over the past two legislative sessions.

Ms. Rechtenbaugh discussed safeguards within the statewide phone system. She advised Text to 9-1-1 is the last planned phase in the NG9-1-1 project, but the NG9-1-1 project will be ongoing and will continue to evolve. She discussed the 9-1-1 surcharge distribution and how the funds will be used going forward.

Item 8 – Public testimony

There was no one present for public testimony.

Item 9 – Future topics:

The following items were discussed to include during the next meeting: Department of Transportation to review their report received from the Federal Railroad Administration, Department of Social Services to discuss their child support collection process, Department of Legislative Audit to provide the analysis of the Other Funds trends, distribute a hard copy of the 2018 GOAC Blue Book if available, review a draft of the 2018 GOAC Annual Report, and review the revised accountability report from the South Dakota Board of Technical Education.

Mr. Flannery advised that the Legislative Research Council has asked all agencies to update their performance indicator reports and they are working on compiling the 2018 full report.

Senator Tapio asked if the Department of Public Safety could speak to the Committee about their readiness for possible terrorist attacks. Representative Steinhauer suggested including information about preparedness for protesting during the upcoming pipeline construction.

A motion was made by Senator Greenfield to adjourn, seconded by Representative Steinhauer. The motion passed unanimously on a voice vote.