

GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

Study Assignment

The Government Operations and Audit Committee was established by South Dakota Codified Laws (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 any findings of abuse or neglect in a juvenile corrections facility;
- To make a continuing study of the operation of the state's correctional system; and,
- 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

The Committee conducted the following review and study activities during 2003:

- Reviewed audit reports;
- Reviewed General Fund contract encumbrances;
- Reviewed the functions of selected state offices.

Summary of Interim

Reviewed Audit Reports

The Committee reviewed the South Dakota Single Audit Report for the fiscal year ended June 30, 2003 and separately issued audit reports issued during 2004. The following summarizes the actions that were taken by the Committee.

Financial and compliance audits involve testing financial transactions of the state to determine that all money is properly accounted for and expended in accordance with state and federal laws and regulations. All audits conducted on 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 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 5 state organizations, containing 15 recommendations for corrective action. One recommendation related to violations of state laws and regulations; seven recommendations related to violations of federal laws and regulations; and, seven recommendations related to inadequate internal control procedures over receipts, revenue collections and expenditures and financial reporting.

The following represents the state agencies with audit findings and recommendations from fiscal years 2003 and 2002 and the implementation of fiscal year 2002 audit recommendations:

	RECOMMENDATIONS		
	Fiscal Year <u>2003</u>	Fiscal Year <u>2002</u>	FY2002 <u>Implemented</u>
Commerce, Department of, Licensing and Regulatory Boards & Commissions Electrical Commission	N/A*	3	N/A
Corrections, Department of	0	1	1
Governor, Office of the	0	2	2
Education, Department of	1	0	N/A
Housing Development Authority	1	0	N/A
Military and Veterans Affairs, Department of	4	7	4
School and Public Lands	2	0	N/A
Social Services, Department of	7	7	2

N/A* This audit is on a two-year audit cycle and did not have a FY 2003 audit.

The Committee sent letters to two state agencies with audit findings and encouraged the state agencies to implement the audit recommendations. The Committee requested one state agency with audit findings to attend the next committee meeting to discuss the audit findings. The committee requested the Department of Legislative Audit to obtain additional information on an audit finding for one state agency. The Committee continues to monitor the responses and corrective actions taken by state agencies.

Representatives from the Archeological Research Center attended a committee meeting to discuss a funding issue addressed in the Single Audit Report. Representatives from the Center provided an overview of the functions of the Center and the approach they plan to take to correct the funding issue.

Reviewed General Fund Contract Encumbrances

The committee completed a review of general fund contract encumbrances that were in effect during fiscal year 2004. The general fund contract encumbrances included four fiscal year 2002 general fund contract carryovers totaling \$2,522,363 and 16 fiscal year 2003 general fund contract carryovers totaling \$15,056,159.

The committee also reviewed general fund contract carryovers that are in effect during fiscal year 2005. The general fund contract encumbrances include two fiscal year 2003 general fund contract carryovers totaling \$1,218,516 and thirteen general fund contract carryovers from fiscal years 2004 totaling \$13,767,173. The committee requested additional information on three fiscal year 2004 contracts.

Reviewed the Functions of Selected State Agencies

DEPARTMENT OF PUBLIC SAFETY--HOMELAND SECURITY GRANT

The Department of Public Safety provided the committee with background on the Homeland Security Grant. The committee was informed that Homeland security grant money can be used for natural disasters, law enforcement and search and rescue operations, in addition to homeland security activities. The committee's review included a review of equipment purchases and the granting of money to local governments.

BOARD OF REGENTS--EXECUTIVE SESSIONS

The committee reviewed the use of executive sessions by the Board of Regents and the process used in taking action on issues discussed in executive session. A review of executive session items made by Attorney General Larry Long and Mr. James Shekleton, Board of Regents, determined that the items discussed in executive session were allowable topics for executive sessions. The committee sent a letter to the Board of Regents recommending each action taken by the Board be a separate motion and a separate vote.

BOARD OF REGENTS--DAKOTA STATE UNIVERSITY, TECHNOLOGY OUTREACH SERVICES (TOS)

The committee reviewed the functions and funding of the TOS, formerly known as the Business Enterprise Institute. The committee addressed the following: the organizations mission statement; goals and objectives; the business plan, including projected services; to whom those services would be provided; the funding sources to be utilized; the organizational structure; staffing levels; and, a projected operating budget.

BUREAU OF INFORMATION AND TELECOMMUNICATIONS--STATE RADIO

The Bureau provided testimony regarding the use of the state radio system. The committee was concerned with policies related to state radio use versus cell phone use. The committee was informed that the state radio system was not intended to be used in the same manner as a cell phone. There were 10,203 state radios with 47% local government traffic. The state radio system covers radios for K-12 school buses. School buses use radios that are on the low-band system

BUREAU OF INFORMATION AND TELECOMMUNICATIONS--CELL PHONE USAGE

The committee conducted a review of cell phones provided to state employees. The review covered state agency policies on cell phone usage and the level of review of cell phone use. The review of agency procedures identified that the level of review for determining a need for a cell phone ranged from a bureau commissioner to an employee supervisor. For those agencies where the determination was made at a supervisor, division or university department level, the policies did not always address uniform or specific criteria for making decisions. We noted the same inconsistencies in policy relating to what cell plan to purchase, when upgrades to the standard cell phone are authorized and the purchase of additional equipment. Policies regarding the use of cell phones ranged from state business only to allowing use for emergencies, employees calling home when traveling out of town and for immediate family concerns. The review of cell phone usage identified that 22 of 692 cell phones were not used during a six-month period. An additional forty cell phones averaged from 1 to 10 minutes of usage per month.

During the review, the Bureau entered into a new cell phone contract. The Bureau projected the new contract would result in an annual savings of \$221,000 because of lower rates and a reduction of extra use charges.

The committee requested that the Senior IT committee provide the committee with regular updates on cell phone usage. The committee also directed the Department of Legislative to communicate the above findings to the state agencies that were included in the review.

DEPARTMENT OF CORRECTIONS--PRISON CONSTRUCTION

The Department of Corrections provided an update on prison construction projects. The committee was informed that the original site at Rapid City was contaminated with methane gas. The new site will cost \$225,000. The Department was using a temporary site that held eighty to eighty five inmates and had fifteen staff.

JUVENILE CORRECTIONS, LEGISLATIVE RESEARCH COUNCIL

The Committee met in Custer at the STAR Academy operated by the South Dakota Department of Corrections. The STAR Academy is a juvenile offender facility that typically houses over 200 children who have been sentenced to the Department of Corrections by the courts. The Committee invited all parents and/or guardians of juveniles in the Corrections system to testify on their experiences with the Department. The committee heard from four individuals and received one letter that was entered in the record. The committee met in executive session with two of the parents and requested the Department to follow up with the complaints.

The Committee heard testimony from John Ellis, the Juvenile Corrections Monitor (JCM). He presented the semi-annual report detailing complaints received at the state owned juvenile corrections facilities. The JCM must immediately notify the Governor, Department of Corrections Secretary, and the Government Operations and Audit Committee in writing of any substantiated abuse or neglect. From January 1, 2004 through June 30, 2004, the JCM received 104 complaints from students, parents, and other interested parties. Of the 104 complaints, seven resulted in a full investigative report. The monitor could substantiate either abuse or neglect in two of the seven cases. In both of the cases, medical staff had neglected

to provide proper medical attention in a timely fashion. The Department of Corrections and the Department of Health have addressed these issues.

BUREAU OF FINANCE AND MANAGEMENT--REVIEW OF CASH BALANCES

The committee reviewed information provided by the Department of Legislative Audit regarding cash balances in indirect cost funds and other federal funds. The report indicated that federal reimbursements of State General Fund expenditures were deposited in federal funds rather than the State General Fund. The Bureau provided testimony regarding the process relating to federal reimbursements and the process used to budget for the expenditure of the related cash balances. The Legislative Research Council addressed a budgetary issue regarding the lack of legislative budgetary over-site of resource in these funds that are available for future obligations. This review resulted in the committee approving three draft legislative bills to be presented to the Executive Board of the Legislative Research Council.

Listing of Legislation Adopted

An Act to require certain financial information to be reported to the Legislature.

This act would require the Bureau of Finance and Management to report unreserved balances for each fund in the state treasury that receives indirect cost reimbursements from the federal government.

An Act to direct the deposit and appropriation of certain federal reimbursements.

This act would require indirect cost reimbursements received from the federal government be deposited in the fund that incurred the costs being reimbursed and require the State Treasurer to transfer cash balances in federal funds that have accumulated due to indirect cost reimbursements to the fund that incurred the indirect cost expenditures. The bill would also allow adjustments to the general appropriations act for the previously stated requirements.

An Act to provide for the budgeting of financial resources available to the state.

This act defines the contents of a condition statement. The act would amend current law by requiring a condition statement for all indirect cost reimbursement funds, requiring condition statements for all budget units that do not receive state general funds and establishing when the condition statements must be submitted to the Legislative Research Council.

The eighth meeting of the Government Operations and Audit Committee was held on December 7, 2004, in Pierre.

The committee was informed that the report of the Government Operations and Audit Committee for 2004 had been submitted to the Executive Board and there were no changes by any committee member.

Committee members received an update on 2004 encumbrances and a listing of audit reports issued in 2004.

An overview on the definition and identification of statutorily created funds and funds being accounted for as other funds and federal funds on the state accounting system was provided.

Information relating to the fiscal year 2004 revenues, expenditures, transfers, year-end cash and investments balances for these funds was provided to the committee members and committee questions were addressed.

Summary of Meeting Dates and Places and Listing of Committee Members

The Committee met on May 18, June 22, September 13, October 25, and December 7, 2004. All meetings were held in Pierre except the September 13 meeting, which was held at the Star Academy in Custer, South Dakota.

Committee members were: Senator Marguerite Kleven, Chair; Representative Ted A. Klautt, Vice Chair; Senators Arnold M. Brown, J.P. Duniphan, John Koskan, and Garry A. Moore; and Representatives Rebekah Craddock, Margaret V. Gillespie, Claire B. Konold, and Gerald Lange.

Staff members from Legislative Audit were Marty Guindon, Auditor General; Rich Hornak, Audit Manager; and Gary Hoscheid, Audit Manager. Staff member from Legislative Research Council was Annie Mehlhaff.