



# MINUTES

## GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

**Sixth Meeting**  
**2005 Interim**  
**Monday, September 12, 2005**

**LCR 1**  
**State Capitol**  
**Pierre, South Dakota**

The sixth meeting of the Government Operations and Audit Committee was called to order by Chair Klaudt at 8:05 a.m., September 12, 2005, in the Legislative Conference Room 1, State Capitol Building, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Senators Jerry Apa, William Earley, Jason Gant, John Koskan; and, Representatives Michael Buckingham, Ted Klaudt, Gerald Lang, and Deb Peters.

Staff members present were Mr. Marty Guindon, Auditor General, and Mr. Bob Christianson, State Government Audit Manager for the Department of Legislative Audit (DLA). Ms. Sue Cichos, Senior Fiscal Analyst and Ms. Annie Mehlhaff, Principal Fiscal Analyst represented the Legislative Research Council.

(NOTE: All referenced documents are on file with the Master Minutes.)

### **Approval of Minutes**

*Representative Lange moved, seconded by Representative Buckingham, the minutes of the July 18, 2005 meeting be approved. Motion prevailed unanimously on a voice vote.*

### **FY 2005 Encumbrances Update**

Handouts were provided to the committee by DLA (**Document #1**) which provided updates of FY 2005 encumbrances outstanding including State General Fund reversions. Mr. Bob Christianson gave an overview and committee discussion followed. The committee requested that a full report from Avera-McKenna Hospital be provided once the contract has been completed regarding the South Dakota QuitLine Services. The report should detail the total number of people treated; the number of people who received treatment multiple times; and, how many times each individual person received multiple treatments. The committee further requested copies of all Chiesman Foundation contracts and all other contracts involving evaluations of Education Service Agencies. For future updates to the committee on outstanding encumbrances, the committee desires a breakdown of the individual contract amounts be provided when multiple vendors are being reported under one encumbrance line item.

### **Future Fund**

A handout was provided by DLA (**Document #2**) detailing Future Fund expenditures for FY 2003 - FY 2005. Mr. Jim Hagen, Secretary, Mr. Jafar Karim, Ms. Ann Gesick-Johnson, and Ms. Marty Davis from the Department of Tourism and State Development provided the committee with an overview of the Future Fund and answered committee questions. The committee requests more information regarding the purpose of various grants including: the \$1.9 million grant given to Board of Regents from the Futures Fund in July 2002; the \$1.5 million grant given to Sioux Falls for the Health Science Facility in December 2002; the \$555,611 given to the Board of Regents in July 2003; the \$300,000 given to the Town of Oacoma in January 2004; and, the \$438,857 given to the Board of Regents in June 2004.

### **Railroad Trust Fund**

A condition statement for the Railroad Trust Fund was provided by DLA (**Document #3**). Ms. Judy Payne, Secretary, Department of Transportation was present to answer committee questions regarding the Railroad Trust Fund. The committee had some concerns regarding the Railroad Trust Fund and requested a report on the yearly amount of Burlington-Northern lease payments to the state; what happened between FY2004 and FY2005 that caused significant swings in revenues and expenses; a detailed breakdown of contractual services for all years involving contractual services, loans and grants; and, a Balance Sheet and Income Statement for the Railroad Trust Fund for FY2003, FY2004 and FY2005. The matter is a continuing issue for the committee and will be addressed again at a subsequent meeting.

### **DOT Land Acquisitions**

A handout was provided by DLA (**Document #4**) containing other states' views on Department of Transportation land acquisitions and associated land value and sales. The committee requests that DOT provide the committee with a report that provides the three year history of land purchases made by DOT for other than the appraised value of the land. The report should detail the parcels of land and dollar amount paid for each parcel under a negotiated price agreement or court ordered amount and the associated original appraised value for each parcel. The committee also requested DOT provide the committee with information on the number of times DOT used the quick take option to acquire needed property over the last three years.

### **DCI Furniture Contract**

Mr. Larry Long, South Dakota Attorney General and Mr. Paul Kinsman, Commissioner of the Bureau of Administration provided the committee with a handout (**Document #5**) and answered committee questions concerning the furniture contract for the new DCI building. Mr. Craig Bump, the consultant hired to draw up bid specs for the contract and Mr. Jeff Holden, Director of Procurement Management were also present to answer committee questions. Mr. Larry Canfield from Canfield Business Interiors testified before the committee.

### **Pharmacy Contract**

Mr. Paul Kinsman, Commissioner of the Bureau of Administration and Mr. Jerry Hofer, Department of Health were present to answer committee questions concerning the prescription drug contract for the Department of Health and Department of Corrections. A handout was provided comparing prices and services of Diamond Pharmacies and Lewis Drug (**Document #6**). Mr. Bill Ladwig, Vice President of Professional Services, Lewis Drug and Mr. Scott Cross, Executive Vice President of Lewis Drug testified before the committee. The committee expressed interest in obtaining a spreadsheet prepared by the Department of Health that identified the projected cost savings from the contract.

*Representative Peters moved, seconded by Representative Buckingham that the committee to go into executive session for the purposes of discussing confidential information surrounding the pharmacy contract. Motion prevailed unanimously on a voice vote. Representative Peters moved, seconded by Senator Koskan to come out of executive session. Motion prevailed unanimously on a voice vote*

### **Draft Legislation**

Several handouts were provided to the committee (**Documents #7**) regarding draft legislation and audit policies of the South Dakota Municipal League, South Dakota Association of County Commissioners and the Associated School Boards of South Dakota (ASBSD). Ms. Yvonne Taylor, Executive Director, South Dakota Municipal League, Mr. Bob Wilcox, Executive Director, South Dakota Association of County Commissioners, Dr. Wayne Lueders, Executive Director, ASBSD, and Mr. Bill

Lynch, Chief Financial Officer, ASBSD testified to the committee. The committee directed that changes be made to the draft legislation to address the potential proprietary information concerns expressed by the associations and to specify the accounting principles that would need to be adhered to by these entities in properly reporting their financial statements. The committee will discuss this item further at a subsequent meeting.

### **Department of Social Services - Child Protection Services**

Ms. Deb Bowman, Secretary, Department of Social Services, and Ms. Virgena Wieseler, Child Protection Services gave the committee an update on committee concerns and questions concerning Child Protection Services.

### **Division of Insurance**

Mr. Gary Viken, Secretary of the Department of Revenue and Regulation, Mr. Merle Scheiber, Director, Division of Insurance, Mr. Andrew Fergel, General Council to the Division of Insurance, and Mr. Brent Wilbur, Attorney were present to answer committee questions. Mr. Pat Bohall, an independent insurance agent was sworn in and then testified under oath to the committee concerning an investigation conducted by the Division of Insurance carried out on his agency. He provided the committee with several handouts (**Document #8**) related to the investigation. Mr. Steve Tinklenberg also testified under oath to the committee concerning an investigation carried out on him by the Division of Insurance. A handout was provided by the Division of Insurance regarding Mr. Tinklenberg's case (**Document #9**). Chairman Klaudt informed the Division of Insurance that this matter would be deferred and that this matter would be discussed further at a future meeting. The committee also directed staff to invite Mr. Greg Swanson to attend the next meeting to discuss issues surrounding the Division of Insurance. The Chair and Co-Chair of the committee will discuss with representatives from the Department of Revenue and Regulation and the Division of Insurance on how to proceed with this matter and which individuals will be requested to appear before the committee.

### **Contractual Information Received from Mr. Randy Morris**

The committee was provided a handout, listing all contract and grant agreements that are currently in effect with the State of South Dakota in which Mr. Randy Morris or organizations for which he is a director, officer or employee has either a direct or indirect interest in the contract (**Document #10**). Mr. Bob Christianson gave an overview of the handout. The committee requests Mr. Randy Morris appear at the next meeting in Rapid City to respond to committee questions.

### **Future Meetings**

The committee will be meeting October 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup>, 2005 in Rapid City (Child Protection Services) and Custer (STAR Academy). The committee will also receive the Juvenile Monitor's report during this meeting. The following meeting will be in Pierre on October 13 and 14, 2005. The committee requested that the Department of Labor be present at that meeting to provide the committee with an update on the condition of the Unemployment Insurance Trust Fund. The committee will also address the Summary of FY2005 Other Fund Balances.

The committee adjourned the meeting at 6:07 p.m.



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