



MINUTES

GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

First Meeting
2006 Interim
Wednesday, May 10, 2006

LCR 1
State Capitol
Pierre, South Dakota

The first meeting of the Government Operations and Audit Committee was called to order by Chair Gant at 8:05 a.m., May 10, 2006, 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, and John Koskan; and, Representatives Michael Buckingham, Margaret Gillespie, Gerald Lange, Ted Klaudt, and Deb Peters.

Staff members present were Mr. Marty Guindon, Auditor General, Mr. Robert Christianson and Mr. Gary Hoscheid, State Government Audit Managers for the Department of Legislative Audit (DLA). 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 requested the minutes be changed to reflect "Representative Lange" in the approval of minutes section of the January 9, 2006 meeting minutes rather than "Senator Lange". Representative Lange moved, seconded by Representative Klaudt, the minutes of the January 9, 2006 meeting be approved as amended. Motion prevailed unanimously on a voice vote.

Department of Corrections

Secretary Tim Reisch and Mr. Doug Herrmann from the Department of Corrections (DOC) gave the committee an overview of juveniles placed in private facilities. An example of a Juvenile Community Corrections Form was provided by the DOC (**Document #1**). Secretary Reisch voluntarily agreed to include in the semi-annual Juvenile Correction Monitor Report, data concerning abuse and neglect instances reported in both the DOC run state facilities as well as juveniles under the control of DOC in private placement facilities. The first such report would cover the time period of July 1, 2006 to December 31, 2006 and be presented to the Committee in January 2007.

Mr. Herrmann provided the Committee with a status report on the Intensive Residential Treatment process and the status of the DOC attempt to serve the majority of youth currently placed in out-of-state facilities within facilities and programs located in South Dakota. DOC has not yet calculated whether a cost savings or an increased cost would result under the various proposals received to date. The department's initial estimate is that there would be no significant savings realized from the proposals.

The Chair then reported that the Semi-Annual Juvenile Correction Monitor Report for the period of July 1, 2005 through December 31, 2005 had been reviewed by the Attorney General. The Attorney General determined that the report did not contain any personally identifiable confidential information and therefore could be released as a public document. The determination by the Attorney General concerning this particular referenced report being released as a public document has no bearing on any prior or any future Juvenile Corrections Monitor Report. Each report would have to be reviewed by the Attorney General individually to ascertain if the report contained any personally identifiable confidential information that would be prevented from being disclosed per South Dakota Codified Laws 26-11A-30 and 26-11A-33. The

Juvenile Correction Monitor Report should continue to be reviewed by GOAC in executive session, especially if the Committee plans to ask questions of the Juvenile Monitor. This action of asking and responding to Committee questions could result in disclosing personally identifiable confidential information. The actual written report could then be reviewed by the Attorney General to determine if the report could be released as a public document.

Committee discussion ensued about releasing the report as a public document in the future. Concerns were expressed about releasing the entire report as a public document. While the summary data portion of the report is general in nature, and is information that should be released to the public, Secretary Reisch expressed concern about releasing the portion of the report concerning the various cases investigated by the Juvenile Monitor. Individuals within the DOC system, whether staff, residents and/or family members familiar with the facility could figure out persons involved in the various cases.

The Committee decided to request that the Attorney General and DOC attend the next Committee meeting to further discuss this issue. The Committee desired to provide the public with as much information as permitted without violating the confidentiality of the individuals involved.

The Chair requested that the Attorney General provide the Committee with a letter documenting his conclusion that the July 1, 2005 through December 31, 2005 Semi-Annual Juvenile Corrections Monitor Report did not contain any personally identifiable confidential information.

Mr. Scott Bollinger, Director of Operations (DOC) gave the committee an overview of the department's funds. A handout of statutorily created funds was provided by DLA (**Document #2**) for the Committee's review. Mr. Bollinger informed the Committee that Company 8604 was the former Youth-At-Risk Fund and is no longer being used by the Department and could be deleted from the accounting system. The Committee recommended that the statutes surrounding the old Youth-At-Risk Fund be reviewed with the goal of eliminating any unnecessary statutes.

Senator Earley recommended that "Company 5008-Inmate Funds" be changed to "5008 - County, City M&R Funds."

Mr. Christianson agreed to provide the Committee with a table (listing) that identified the fund type of the various companies recorded on the state accounting system.

Representative Gillespie requested that DOC provide additional information on why MDSP Vocational Industry sub-fund experienced a decrease in cash balance between 2003 and 2004. Mr. Bollinger agreed to determine the reason and provide the Committee with the information.

Committee discussion continued surrounding the various sub-funds within Company 3023 and the miscellaneous activities and programs that DOC is involved in.

General Fund Encumbrances

Mr. Gary Hoscheid gave the committee an overview of General Fund Encumbrances and answered committee questions. A handout was provided by DLA (**Document #3**) which provided updates of FY 2006 encumbrances outstanding. The Committee requested additional detail on the state aid to education encumbrance and special education encumbrance. The Committee also requested information on the expenditure correction involving the Cost Technologies Inc. encumbrance under the Department of Social Services.

In-State and Out-of-State Contracts

A handout listing in-state and out-of-state contracts was provided by DLA (**Document #4**). The Committee requested DLA to provide further breakdowns for: Merchandise Purchased for Resale, Medical Consultants, Accounting, Computer Consultants, Gasoline/Gasohol, Consultant Research Analysis, Painting Supplies, Vehicle Maintenance, and Stockpile Materials line items.

Update from Department of Social Services - Constituent Liaison Function

An update of the Constituent Liaison Function and activities to date was given by Ms. Deb Bowman, Secretary for the Department of Social Services and Ms. Valerie Porter-Hanson, Constituent Liaison for the Department of Social Services. Handouts including a Constituent Liaison brochure and a Constituent Liaison Progress Report were provided by the Department of Social Services (**Document #5**). Committee discussion and questioning followed. Secretary Bowman reminded the Committee that she had agreed to provide the Committee with an annual report on the results of the activities of the Constituent Liaison and any actions that were taken. Secretary Bowman informed the Committee that she would be willing to sit down with the judicial branch to discuss concerns that have been raised and to attempt to effect needed statutory changes. The department anticipates to have recommended statutory changes ready by the next legislative session or the following session.

Department of Transportation

The Chair updated the Committee on correspondence sent to and received from the Department of Transportation. The Committee requested that the Secretary for the Department of Transportation, the Chairman of the Railroad Authority Board, and the Chairman of the Railroad Board attend the next Committee meeting to discuss railroad loans and other railroad related issues. The Committee also requested that the Department provide the policies and procedures that exist concerning the loan application and review processes including any proposed changes to policies or procedures that may exist. Areas of specific interest include the loan application and what information is requested/required to be included as part of the application. In addition, the Committee requested: the policies and procedures concerning the financial analysis performed on each application including any proposed changes to policies or procedures that may exist; the policies and procedures surrounding the loan loss review process and the loan loss reserve requirements established by the Board including proposed changes to policies or procedures that may exist; current FY2006 financial information on the Railroad Trust Fund and Railroad Authority Fund including revenues, expenditures, transfers, cash balances and loan receivables; FY 2006 spending authority available for railroad activities; activity or work product that the Consultant will provide and what spending authority is being utilized to pay the hired consultant for the state rail plan; what legislative oversight is provided over this area, if any; and the individual loan requests received; loans that are currently pending; and, loans that have been approved and issued as of the date of your response. Of specific interest to the Committee are the loan requests involving the Northern Hills Regional Railroad Authority, the Napa to Platte line, the Marshall Regional Railroad Authority at Britton, and the Corson County Regional Railroad Authority at McLaughlin.

South Dakota Board of Regents Contracts

A handout covering South Dakota Board of Regents New Leases for the first quarter of calendar year 2006 was provided by DLA (**Document #6**). Committee discussion followed.

FY 2005 Single Audit Overview

Handouts were provided by DLA including the FY 2005 Single Audit Overview (**Document #7**) and Separately Issued Audit Reports (**Document #8**). Mr. Robert Christianson and Mr. Gary Hoscheid of DLA gave an overview of the FY 2005 South Dakota Single Audit and answered committee questions. Each written audit finding was discussed with the Committee.

The committee requested that a letters be sent to the following agencies:

- Bureau of Finance and Management requesting that a status report be provided to the Committee on the progress being made in implementing the recommendation including the latest monthly statewide bank account reconciliation that has been completed.
- Department of Tourism and State Development requesting representatives from the Department appear at the next meeting to provide the Committee with information surrounding the purchase of the two Triton boats and to address questions raised by the Committee concerning this transaction. The Committee also requested the Department provide: documentation that justified that only Triton boats were suitable for the activities for which the boats would be used; justification for the Department needing boats for fishing, skiing and showing guests the river; specifics on how the Triton boats have been used to date including number of trips, dates of trips, purpose of trips and staff and guests involved with the trips; and, documentation on how the value of the boats traded in was established or determined.
- Office of Procurement Management requesting representatives from the office appear at the next meeting to provide the Committee with information surrounding the purchase of the two Triton boats and to address questions raised by the Committee concerning this transaction. The Committee also requested the office provide: documentation that justified that only Triton boats were suitable for the activities for which the boats would be used; procedures that have been implemented and the date the procedures were implemented to ensure surplus property included in a trade-in is properly appraised; and, documentation on how the value of the boats traded in was established or determined.
- Department of Agriculture requesting the Department provide the Committee with the policies and procedures that have been implemented and the date the procedures were implemented to ensure compliance with the state's asset capitalization policies.
- Economic Development Finance Authority requesting the policies and procedures that have been implemented and the date the procedures were implemented to ensure requests for waiver of eligibility requirements are properly submitted and approved by the Board whenever eligibility requirements are not met. The Committee also requested the Authority provide: the statutory authority the Authority uses to grant waivers when eligibility requirements are not met; the number and amounts of APEX loans active as of the current date; the specifics of the waivers granted for these loans; and, an explanation of why the Authority approved a loan that did not meet eligibility requirements and did not have an approved waiver of the eligibility requirements.
- Department of Social Services requesting a written response on the actions taken by the Department to correct all issues identified in the current audit. In addition, the Committee requested that the most recent month end cash balance for each of the subrecipients receiving LIHEAP federal funds identified on page 240 be provided along with what documentation the Department is currently using to base reimbursement payments on to those subrecipients. The Committee also desired an update on the modifications that have taken place to the programs used to create the SS80 report which is used to prepare the LIHEAP Household Report. Further, the committee requested a written response on the actions taken by the Department to correct all issues identified in the statewide single audit over the last five years relating to the LIHEAP.
- Department of Education requesting representatives from the Department appear at the next meeting to discuss and review the fund balances of the various funds under the control of your Department and respond to questions from the Committee. The Committee also requested the Department to provide: specifics regarding the increased workload referred to in the Department's response concerning the position responsible for subrecipient monitoring; the actual progress being made in the development of the software program that will be utilized to collect and report data submitted in the Accountability Report; the procedures that were implemented and the date those procedures were implemented to prevent the reoccurrence of the error involving the state aid to special education calculation; and, the amount of money that has been recovered and the districts from which the overpayments have been recovered relating to state aid to special education.
- To all agencies encouraging implementation of the audit recommendations.

Topics for Future Meetings

Discussion was held on topics to be addressed at future meetings. Topics included:

- Tour private placement juvenile correction facilities in Chamberlain, Huron, and possibly Mitchell followed by a one day meeting in Pierre sometime during July 12-14
- Next GOAC meeting to be scheduled for June 28, 2006
- Review of funds and fund balances of the Department of Transportation and Department of Education at the June 28, 2006 meeting
- Higher Education tuition and fees
- Master Tobacco Settlement
- Residential treatment facilities
- Boards and Commissions: new massage therapist
- South Dakota Housing Development Authority
- Game, Fish and Parks land acquisition from Homestake
- Bond reserve funds

The Committee adjourned the meeting at 4:30 p.m.



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