



# MINUTES

## GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

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**Fourth Meeting  
2008 Interim  
July 8, 2008**

**LCR 1 & 2  
State Capitol  
Pierre, South Dakota**

The fourth meeting of the 2008 Interim Government Operations and Audit Committee was called to order by Chair Gant at 10:00 a.m., July 8, 2008, in LRC 1 & 2, State Capitol Building, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Senators Jerry Apa, Jason Gant, Scott Heidepriem, and Jean Hunhoff; Representatives Michael Buckingham, Margaret Gillespie, Deb Peters, and Larry Tidemann. Senator Dan Sutton and Representative Gary Moore were excused.

Staff members present were Mr. Martin L. Guindon, Auditor General, Mr. Bob Christianson, Mr. Gary Hoscheid, and Mr. Tim Flannery, State Government Audit Managers for the Department of Legislative Audit (DLA).

### **Approval of Minutes**

*Senator Apa moved, seconded by Representative Tidemann, the minutes of the May 13 & 14, 2008 meeting be approved. Motion prevailed unanimously on a voice vote.*

*Minutes from the June 24, 2008 meeting at Springfield Correctional Facility were not yet available for approval.*

### **Bureau of Finance and Management and Department of Education – Review and Discussion of Prior Spending and Future Funding for the Governor’s Classroom Connections Project Involving the School Computer Laptop Program**

Dr. Rick Melmer, Secretary for the Department of Education, and Mr. Jason Dilges, Commissioner for the Bureau of Finance and Management (BFM) were present to answer questions from Committee. The Committee requested that BFM prepare and provide a report detailing the FY07 and FY08 e-rate revenue collections and associated expenditures to the Committee. The Committee requested month end cash balances for this e-rate funding over this two year period also be provided.

### **State Auditor and State Treasurer – Discussion on Establishment and Maintenance of Local Checking Accounts**

Mr. Rich Sattgast, State Auditor, and Mr. Mike Mehlhaff, Deputy State Treasurer addressed Committee questions on local checking accounts. Both the State Treasurer’s Office and the State Auditor’s office monitor these local accounts. Mr. Sattgast explained that agencies have to submit a request to have a local checking account and have to meet specific criteria e.g., is it necessary and is it legal? Local checking accounts are reviewed every three years, and the State Treasurer’s Office gets a quarterly

statement. In the last five years, the number of local checking accounts has been reduced from 286 to 198. One of the controls that the State Treasurer's office has over these local accounts is the ability to "sweep" them, which means the money is deposited in the bank and the State Treasurer's office can electronically transfer the money from the bank into the State bank account at any time. Boards and Commissions with local checking accounts have a set minimal balance they cannot exceed. Mr. Mehlhaff testified there are agencies with idle cash that could possibly gain interest if the State would choose to invest the money. Mr. Mehlhaff agreed to provide the Committee with a list of those accounts for further investigation. Committee has also asked for a complete list of approved local checking accounts.

### **State Comptroller – Update from Rodger Leonard**

Mr. Rodger Leonard, State Comptroller for the Governor's Office updated the Committee on his work with the MMIS project and other duties.

### **Audit Comments – Recently Issued (Document #14)**

Statewide Financial Reporting Process – Mr. Christianson reviewed the audit findings. The Committee is requesting Mr. Jason Dilges, Commissioner of the Bureau of Finance and Management be present at the next Committee meeting to present an action plan and time line to correct the audit findings. The Committee is also interested in hearing the progress of hiring new accounting analysts and the roll the employees will play in assuring such audit findings do not re-occur.

Department of Revenue and Regulation – Mr. Hoscheid reviewed the audit findings. The Committee is requesting Mr. Paul Kinsman, Secretary for the Department of Revenue and Regulation attend the next Committee meeting to address the audit finding and discuss the process of collecting and calculating interest on these late fees/taxes. This was the second consecutive audit to contain the same audit finding.

Department of Agriculture – Mr. Hoscheid and Mr. Christianson reviewed the audit findings. The Department of Agriculture disputed the audit finding relating to indirect cost fund's cash balance in their Corrective Action Plan. Mr. Christianson stated that the Department of Legislative Audit stands by its audit finding. The Committee requested that a report be prepared and provided to the Committee once the state accounting system closes to determine the cash balances of the various indirect costs funds of the State. The Committee decided that it may request Mr. Bill Even, Secretary of the Department of Agriculture to be present at a future Committee meeting to testify if the audit finding re-occurs.

Science and Technology Authority – Mr. Christianson reviewed the audit findings. The Authority's Corrective Action Plan includes hiring a Chief Financial Officer to prepare end-of-year financial statements to avoid a re-occurrence of this audit finding. The Committee is requesting the Authority provide the Committee with a report on the status of hiring a Chief Financial Officer.

Department of Transportation – Mr. Hoscheid reviewed the audit findings. After much discussion on the audit findings, the Committee voiced concerns regarding 3<sup>rd</sup> party billings and associated accounts receivable. Mr. Keith Senger, Director of Accounting Analysis and Financial Reporting for the Bureau of Finance and Management will be looking at this concern from a statewide level. The Committee is requesting Mr. Darin Bergquist, Secretary of the Department of Transportation appear before the Committee at the next Committee meeting to report on the status of the audit findings. The Committee also requested that copies of the audit findings be provided to the Chair and Vice Chair of the Highway Needs and Financing Committee.

Board of Regents – Mr. Hoscheid reviewed the audit findings. Mr. Monte Kramer, System Vice-President for Administration for the Board of Regents testified to the audit findings, stating that the transition to their new computer system (Banner) has been a long, challenging venture. Mr. Kramer did

not dispute the audit findings, and he assured the Committee all Regents staff is actively working to make necessary changes. The Committee requested Mr. Kramer provide the Committee information on the cost of the Banner system implementation.

University of South Dakota – Mr. Hoscheid reviewed the audit finding. Ms. Sheila Gestring, Assistant Vice-President for the University of South Dakota testified that the University would provide a subsidiary listing of land and land improvements and an associated depreciation and accumulated depreciation listing required to address the audit finding. There was no further discussion.

South Dakota State University – Mr. Hoscheid reviewed the audit finding. Mr. Mike Reger, Executive Vice-President for Administration for South Dakota State University addressed concerns from the Committee regarding the improper disposal of equipment purchased with state and federal funds. The Committee is concerned that legal complications may arise due to some type of contract that was entered into in the process. Mr. Reger did not dispute the audit findings and assured Committee members that actions are being taken to correct the issue.

South Dakota School of Mines and Technology – Mr. Hoscheid reviewed the audit findings. Mr. Tim Henderson, Vice-President of Business and Administration, South Dakota School of Mines and Technology responded to issues addressed in the audit findings. Mr. Henderson agreed to relay any federal correspondence relevant to these audit findings on to the Committee when final resolution is achieved.

South Dakota Housing Development Authority – Mr. Christianson reviewed the audit finding. There was no further discussion.

### **Contract Listing for Committee Use and Sunset Review Committee Use – Game, Fish, and Parks, Department of Tourism, and State Development**

The Committee directed that the Chair should coordinate with Mr. Hoscheid to get the requested information on contractual expenditures to the Chairs of the Sunset Review Committees as soon as the information is available.

### **Committee Review and Discussion on Follow-Up Items From Prior Meetings**

Quarterly Encumbrance Report – Mr. Hoscheid reviewed the correspondence received (Document #1) from the various agencies concerning the purpose and current status of the outstanding encumbrances. There was limited discussion on these agency responses. The Committee desired that a letter be sent to the Department of Human Services to determine the specific outcome received by the state received from this expenditure of funds. No further action was deemed necessary by the Committee.

Board of Abstractors – Mr. Hoscheid reviewed the response from the Board of Abstractors regarding their local checking account (Document #3) and recording the associated financial transactions on the state accounting system. No further action was deemed necessary by the Committee.

Secretary of State – Mr. Hoscheid reviewed the response from the Secretary of State's office regarding 2007 ending balance for the UCC Filing Fee Fund (Document #4). No further action was deemed necessary by the Committee.

State Library – Mr. Hoscheid reviewed the response from the South Dakota State Library regarding the status of the renovation of the State Library Building (Document #5). The Committee requested a letter be sent asking for clarification on the number of FTE's still working at the Library and their future plans for FTE's.

Military and Veterans Affairs – Mr. Hoscheid reviewed the response from the Department of Military and Veterans Affairs regarding the Resident Trust Fund at the Michael J. Fitzmaurice Veterans Home (Document #8). No further action was deemed necessary by the Committee.

Department of Revenue and Regulation – Mr. Hoscheid reviewed the response from the Department of Revenue and Regulation regarding the Tax Relief Fund (Document #9). The Committee requested Secretary Paul Kinsman appear at a future meeting to give more information on this fund, and explain where the dollars go and what they are used for.

### **Electrical Commission – Licensing Issues (Document #15)**

Mr. Ron Nagle, Executive Director for the South Dakota Electrical Commission, and Mr. Larry Simonson, President for the South Dakota Electrical Commission were present to address Committee questions. The Committee raised concerns that the reciprocity agreement between South Dakota and North Dakota was in jeopardy. Mr. Nagle and Mr. Simonson informed the Committee that they were part of a meeting with North Dakota electrical officials on July 1, 2008 attempting to remedy the situation. North Dakota is questioning the approval of some South Dakota journeyman level electricians' licenses due to lack of verifiable hours. Mr. Nagle and Mr. Simonson testified there are areas in the state where there is no one available that could verify the hours the electricians are working, but assured the Committee these electricians still have to pass the same testing and meet the same requirements as any other journeyman. The Committee is concerned about allowing a select group of licensees to obtain licensure without verifiable hours could compromise journeymen who gain licensure by following the proper channels. The Committee still had questions, and requested Mr. Nagle appear again at the August 19, 2008 meeting in hopes to clear up some of the confusion with this issue.

### **South Dakota Brand Board – Transition of the Brand Inspection to a State Run Program**

Mr. Larry Stearns, South Dakota Brand Board Executive Director was present to report on the transition of the brand inspection program from the South Dakota Stockgrowers Association to the State Brand Board. Mr. Stearns answered Committee questions on the number of full-time employees (14) and part-time employees (76) and answered additional Committee questions regarding the program. Due to time constraints limiting the discussion, the Committee decided to draft a letter with questions regarding the feasibility study and how the program is working and requested that Mr. Stearns return to address these issues at the August 19, 2008 Committee meeting.

### **South Dakota Corn Utilization Council's Aircraft – (Document # 6 and Handout dated 11-15-2007)**

Mr. Hoscheid detailed some of the differences in the two documents regarding the history and ownership of the aircraft in question. Mr. Mike Reger, Executive Vice-President for Administration for South Dakota State University explained the history of the aircraft to the best of his recollection. The Committee continues to have questions regarding the transfer of ownership of the aircraft and how the transfers took place (e.g. titles, registration). The Committee requested documentation to support the transfer, purchase price, and current value. Mr. Reger testified that he will investigate further to provide answers for the Committee. This topic will be discussed again at a later date.

### **Additional Documentation Handed Out at Meeting**

Information was handed out in response to questions raised at the June GOAC meeting in Springfield (Document #16). This information was regarding 2006 census income data for South Dakota in relation to how many households would be eligible for the Governor's House Program. A monthly snapshot of a drug formulary for the Mike Durfee State Prison was also included.

### **Agenda Items Not Addressed at this Meeting**

Due to time constraints, the following topics were unable to be addressed at this meeting.

Professional and Occupational Licensing Boards and Commissions Reciprocity – (Document #2)  
Responses for Establishing Interest Rates for Various Loans Issued – (Document #7)  
Unfinished Business Relating to the Springfield Tour  
NSU – International Business Institute – (Document #10)  
LRC – Per Diem for Legislators Issues – (Document #11)  
DOSS – FSD versus SSI Issues – (Document #1)  
Board of Medical and Osteopathic Examiners – (Document #2)  
Attorney General Background Checks – (Document #12)  
Response from Department of Labor on Technical Professions Board – (Document #13)

The Committee directed that the topics be added to the agenda for the August 19, 2008 meeting and that the Committee members save these documents and bring them to the August 19, 2008 meeting.

### **Future Meeting Dates**

August 19, 2008 – 8:00 a.m.

No meetings have been scheduled for September or October, 2008.

*Senator Apa moved, seconded by Representative Peters, to adjourn the meeting. Motion prevailed unanimously on a voice vote.*

The Committee adjourned the meeting at 5:15 p.m.



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