



MINUTES

GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

**Fifth Meeting
2008 Interim
August 19, 2008**

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

The fifth meeting of the 2008 Interim Government Operations and Audit Committee was called to order by Chair Gant at 8:10 a.m., August 19, 2008, in LCR 2, State Capitol Building, Pierre, South Dakota.

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

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

Approval of Minutes

Representative Peters moved, seconded by Representative Tidemann, the minutes of the June 24, 2008 meeting be approved. Motion prevailed unanimously on a voice vote.

Representative Buckingham moved, seconded by Representative Peters, the minutes of the July 8, 2008 meeting be approved. Motion prevailed unanimously on a voice vote.

Bureau of Finance and Management – E-Rate Historical Information (Doc. #1) and Improvements to Preparing External Financial Reports

Mr. Jason Dilges, Commissioner for the Bureau of Finance and Management (BFM) addressed the Committee on E-Rate information outlined in Document #1. Mr. Dilges answered questions from Committee regarding expenditures and revenues in the E-Rate fund and expenditures for the Classroom Connections program. Mr. Dilges was asked to return next month (September 2008 meeting) to address the evaluation reports for the first year of the laptop initiative. Mr. Dilges suggested that Dr. Melmer, Secretary of the Department of Education also attend to fully explain these evaluation reports.

Mr. Keith Senger, Director of Financial Analysis for the Bureau of Finance and Management outlined the Bureau's plan for strengthening internal controls and streamlining the external financial reporting process. Mr. Senger testified that five new accounting analysts are currently being trained on the State's accounting system and governmental accounting. The goal is that these highly trained individuals will be able to take on some of the duties that the Department of Legislative Audit previously performed, provide training to state employees in other state agency offices, and ultimately assure the Comprehensive Annual Financial Report (CAFR) is completed in a timely manner. Mr. Dilges expressed that he is very pleased with this development but declined to give a specific time frame as to when next year's CAFR would be completed.

Mr. Dilges also indicated that he was in agreement with the proposal to go to a paperless process involving communications between the GOAC Committee and the Executive branch of state government. Basic policies and procedures will be developed as this project moves forward.

Department of Transportation – Previous Audit Findings (Doc. #14 previous meeting)

Mr. Darin Bergquist, Secretary for the Department of Transportation, and Ms. Kellie Beck, Director of the Division of Finance and Management for the Department of Transportation were present to explain the Department's corrective action plan to resolve issues relating to audit findings in the Statewide Single Audit for the fiscal year ended June 30, 2007. Mr. Bergquist addressed the seven audit findings and testified he did not dispute any of the findings, but has an issue with Finding No. 2007-02. Mr. Bergquist testified that the Department was unable to locate the proper documentation at the time of the audit, but that the Department was in compliance and has since located said documentation. No further action was deemed necessary by the Committee.

Board of Regents – FY 2007 Statewide Single Audit Findings (Doc. #3), Discussion on Proposed SDSU Research Park (Doc. #3a), and Progress of the Banner System

Mr. Monte Kramer, System Vice-President for Administration for the Board of Regents, Ms. Mary Ellen Garrett, Budget and Accounting Coordinator for the Board of Regents, and Mr. Jim Shekelton, General Counsel for the Board of Regents addressed the Committee on behalf of the Board. Ms. Garrett presented a document (#24) which outlined a progress report and action plan for the Board's resolution of the noted audit findings.

Mr. Kramer addressed Committee questions concerning the Banner system. Mr. Kramer testified that the Banner system was up and running within a 24 month period, but there are still issues to work through. Mr. Kramer also testified that this automated system brings more demands in certain areas, and the Board has not seen a decrease in FTE's. Ms. Garrett handed out another document (#25) that identified actual revenue and expenditures relating to the Banner system for FY 2005-2008 and a projection of revenues and expenditures budgeted in FY 2009-2014.

Mr. Jim Shekelton handed out a document (#26) and shared his knowledge of the SDSU Research Park. Mr. Shekelton detailed challenges unique with the lease of potential tenants in developing research parks on state land. Mr. Shekelton stated that South Dakota is the only state that does not have any research parks, and this information is an attempt to enlighten the Committee on what to expect in the future. Mr. Shekelton was enthusiastic that research parks complement university research by (1) providing the researchers opportunities to commercialize their findings (2) collaborating with the private sector, in turn growth between entrepreneurs, private sector, and researchers on campus, which attracts a higher quality of professors and research projects (3) more opportunity for technical institute student growth. Representative Tidemann handed out documentation (Doc's #27 and 28) for a visual aide to show the first building being constructed. Representative Tidemann also answered a Committee question regarding the Board of Regents involvement in research park development. Mr. Shekelton and Representative Tidemann each provided historical facts and figures of research parks in other states. This topic will be revisited as it progresses.

South Dakota Brand Board Feasibility Study

Due to a time constraint, the SD Brand Board was asked if this topic could be moved to the agenda for the September 23, 2008 meeting which was agreeable to the Board.

South Dakota Electrical Commission – Licensing Issues (Doc. #4, 4a)

Mr. Larry Simonson, President for the South Dakota Electrical Commission, Mr. Ron Nagle, Executive Director for the South Dakota Electrical Commission, and Mr. Todd Kolden, Administrator with the

Department of Labor were present to address questions from the Committee. Discussion concentrated on the fees, licenses, policies and procedures, and personnel issues. The Committee considered going into an executive session but decided against going into executive session. The Committee indicated that it would go into executive session if needed. Mr. Kolden testified that he attends the Electrical Commission meetings as his schedule permits and that the minutes do not always reflect the issues/concerns in detail. In response to Committee questions, Mr. Kolden stated that there is no policy in place prohibiting employees from contacting their Legislators with a concern. Additional questions were raised regarding the licensing for journeymen and apprentices, uniformity in paperwork, record retention, and testing protocol. The Committee was particularly interested in the licensing process for individuals who reside and work within a colony. In reference to licensing electricians from a colony, Mr. Kolden stated that said licenses were stamped "No Reciprocity".

The Committee raised a concern over fees certain cities were required to pay while other cities were not required to pay similar fees. Mr. Kolden assured the Committee that this issue would be looked into and resolved since no city should be paying inspection fees directly into the Commission. The Committee also requested that the Commission provide the Committee with the Commission's policies or procedures concerning the refund of overcharged fees.

Mr. Kolden recognized that some policies that are currently in place will need to be re-visited and possibly changed. Mr. Kolden assured the Committee he also shares some of the same concerns as the Committee has, and the Commission is already addressing these issues. The Committee requested copies of all paper and electronic information in the Commission's files for each of the individuals referenced in the packet of information provided to the Committee as per their request. Two inspectors for the South Dakota Electrical Commission were given the opportunity to express their concerns with the Committee. Both employees stated they have repeatedly voiced concerns that have not been addressed by the Commission. The Committee requested a copy of a memo addressing fees to be charged for home inspection (private vs. realtor request), and a copy of a memo addressing protocol for concerns/complaints. The Electrical Commission and its associated issues will continue to be an agenda item for future GOAC meetings.

South Dakota Corn Utilization Council – Aircraft Used in Ethanol Research (Doc. #5, 23)

Ms. Lisa Richardson, Executive Director of the South Dakota Corn Utilization Council, Dr. Mike Reiger, Executive Vice President of Administration at South Dakota State University (SDSU), and Mr. Darwin Longieliere, Internal Auditor at SDSU were on hand to address the Committee. Handouts (Doc's. # 29, 30, and 31) were given to the Committee to explain the chain of ownership of the Grumman AG CAT and the N1163G Mooney Aircraft involved in the aviation ethanol research project at SDSU. The documentation resolved ownership issues concerning Great Planes Fuel Development Institute, South Dakota Corn Utilization Council, South Dakota Corn Growers, SDSU Foundation, and SDSU. There was no further action taken by the Committee.

Department of Revenue and Regulation – Discussion on Interest Charged on Bank Franchise/ Bank Card Taxes and Streamlined Sales Tax Collections (Doc. #9 previous meeting)

Secretary Paul Kinsman, Mr. Mike Kenyon, and Ms. Jane Page, Department of Revenue and Regulation were present to answer Committee questions. Mr. Kenyon explained how interest is collected on bank card taxes. Mr. Kenyon testified that the Department's computer system was inadequate to provide necessary data and required updating to resolve some problems. The Department reviewed the entire process and created a single database to access all information needed to properly assess interest on late payments. Mr. Kenyon is confident these actions should allow the Department to correct the audit finding. Ms. Page addressed the Committee and answered Committee questions regarding Streamlined Sales Tax Collections. No further action was taken by the Committee.

South Dakota Lottery – Discussion on VLT Machines

Mr. Norm Lingle, Executive Director with South Dakota Lottery addressed the Committee and provided data regarding the different lottery machines, the ownership of the machines, the number of establishments operating machines, and how the networking of the machines works. The current contract with Scientific Games International who owns the protocol for the video central system will expire in August 2009. South Dakota Lottery made the decision to split the on-line and video lottery system and has issued a RFP for a new on-line central system. Three proposals have been received and Mr. Lingle is in the process of evaluating the submitted proposals and will be making a recommendation to the Lottery Commission in the near future. Mr. Lingle is hopeful that the next contract will be an open protocol. Lottery's goal is to move away from the proprietary situation they are in now. The Committee will re-visit this topic as new developments occur.

Department of Game, Fish, and Parks and Department of Tourism and State Development Contract Listing – Sunset Review Committee Use (Doc's. #10 and 11)

Mr. Hoscheid reviewed the documents and gave a brief recap on them. The Committee is requesting a more detailed breakdown on expenses for Kelly Services, Bockorny Group Inc., and Lawrence & Schiller Inc. including the nature of the services to be provided.

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

End of Year Encumbrance Report – (Doc's. #7,7a,7b) Mr. Hoscheid reviewed the documents. The Committee is requesting more detailed information on Southern Folger and Syscon contracts including copies of the contracts be provided to the Committee.

Professional and Occupational Licensing Board and Commissions – (Doc. #2 previous meeting) Mr. Hoscheid reviewed the information. The Committee requested that a summary of information covering all Boards and Commissions reciprocity process be prepared and provided to the Committee for comparative purposes. This will be an agenda item for the next Committee meeting.

LRC – GOAC Committee going paperless – (Doc. # 21) Mr. James Fry, Director of the Legislative Research Council explained various options available to the Committee in implementing a paperless communication process. Mr. Fry is going to explore various alternatives and do some experimentation. Mr. Fry will report back to Committee at the next meeting.

State Library Update – (Doc. # 18) Secretary Rick Melmer, Department of Education, and Mr. Dan Siebersma, State Librarian were present to address the Committee on the changing roll on the State Library. Mr. Siebersma said the changes made have put more of the duties out in the field. The work load was not reduced, but was moved out into the field and the central location took on more of a support role. There is approximately 20% of the library collection that is still housed at the State Library in Pierre. The other 80% of the collection has been distributed to libraries throughout the State. The Committee had no further questions and no further action was necessary.

Science and Technology Authority – Hiring Status of a Chief Financial Officer – (Doc. #8). The document provided to the Committee indicated that the Authority hoped to have a Chief Financial Officer hired by September 1, 2008. The Committee requested that the Authority provide a listing of all employees of the Science and Technology Authority by position title including the respective salaries. Also requested was a copy of the latest quarterly financial report for the Authority. This area will be included as an agenda item for the next Committee meeting.

Responses Received on Policies and Procedures on Interest Rates on Various Loans – (Doc. #7 Previous Meeting) The Committee reviewed the document. The committee requested that a summary

of the information be prepared by DLA to facilitate the review and comparison of the various programs and interest rate. This will be an agenda item at the next Committee meeting.

NSU – International Business Institute – (Doc. #10 previous meeting) The Committee requested historical information over the last four years on the Federal and State dollars that are involved. The Committee requested that NSU provide the Committee with a written report that provides the the number of job opportunities created as a result of the International Business Institute activities since its creation. The Committee also desired a recap of the funding sources utilized by the Institute since its inception to fund its operations and the economic impact the Institute and its activities has had on the State since it inception.

LRC – Per Diem Discussion – (Doc. #11 previous meeting) The Committee had a brief discussion on the LRC per diem policy for the first week of legislative session. No Committee action was taken.

DOSS – FSD Versus SSI Issues – (Doc. #1 previous meeting) There was a brief discussion. No Committee action was taken.

Board of Medical and Osteopathic Examiners – (Doc. #2 previous meeting) Mr. Hoscheid reviewed the information pertaining to the reciprocity and refund issue. The Committee requested a letter be sent to the Board asking them to notify parties involved regarding the refund issue.

Attorney General – Background Checks – (Doc. #12 previous meeting) Mr. Hoscheid reviewed the information. No Committee action was taken.

Board of Technical Professions – Draft Legislation (Doc. #16) The Committee discussed the agreement with the Board during the last legislative session to exclude the Board from the proposed legislation and the Board's agreement to work with the Committee to prepared draft legislation for submission during the next legislative session. The Committee requested that a letter be prepared and sent to LRC requesting that draft legislation be prepared concerning the Board's fees for review by the Committee at the next meeting.

Unified Judicial System and State Treasurer's Discussion on Local Bank Accounts and Money Being Held in Trust Not Earning Interest – (Doc's. #6, 6a, 6b, and 6c)

Mr. D.J. Hanson, State Court Administrator for the Unified Judicial System, Ms. Judith Roberts, Legal Counsel with the Unified Judicial System, and Ms. Janet Borchard, Division of Budget and Finance Director with the Unified Judicial System addressed the Committee on money held in trust not earning interest. Ms. Roberts detailed some of the legal ramifications and possible complications involved with earning interest on money held in trust. Ms. Roberts testified that these monies are fiduciary funds meaning the money belongs to individuals and not the State of South Dakota. Mr. Hanson offered to contact other states to see if any of them are earning interest. The Committee decided to keep this as an agenda item for a future Committee meeting. Mr. Gary Hoscheid reviewed the documents on all local bank accounts. No further action was deemed necessary.

Agenda Items Not Addressed at this Meeting

The following topics were deferred by the Chair due to time constraints:

Draft working copy of the GOAC's Annual Report to the Executive Board (Doc. 12)
Department of Human Services (Doc. #19)
Cash Flow Portfolio Report and Discussion (Doc. #20)
Amtrak Funds (Doc. #13, 13a)
Review of the FY 2007 Statewide Single Audit

Mr. Hoscheid requested the Committee review the GOAC Annual Report to the Executive Board (Doc. #12) and provide any suggestions.

The Committee directed that these topics be added to the agenda for the September 23, 2008 meeting and that the Committee members save these documents and bring them to the September 23, 2008 meeting.

Future Meeting Dates

September 23, 2008 – 8:00 am
October 21, 2008
December 1, 2008

A possible meeting in November will be decided at a later date.

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

The Committee adjourned the meeting at 4:20 p.m.



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