



# MINUTES

## GOVERNMENT OPERATIONS AND AUDIT COMMITTEE

**Second Meeting  
2011 Interim  
August 23, 2011**

**Room 412  
State Capitol  
Pierre, South Dakota**

The second meeting of the 2011 Interim Government Operations and Audit Committee was called to order by Chair Carson at 10:00 a.m., August 23, 2011, in LRC Room 412, State Capitol Building, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Senators Jeff Haverly, and Deb Peters; Representatives Lance Carson, Kent Juhnke, Paul Dennert, and Dan Dryden. Senator Jean Hunhoff was present via phone. Senators Larry Tidemann, Jim Hundstad, and Representative Charles Turbiville were excused.

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

### **Approval of Minutes**

*Representative Juhnke moved, seconded by Representative Dennert, the minutes of the June 21 & 22, 2011 meeting be approved. Motion prevailed unanimously on a voice vote. (Doc. 1)*

### **Department of Human Services – Juvenile Corrections Monitor Semi-Annual Report (Doc's. 2 and 10)**

Ms. Laurie Gill, Secretary of the Department of Human Services, and Mr. John Ellis were present to address the Committee. Mr. Ellis presented the Semi-Annual Juvenile Corrections Monitor Report and answered Committee questions. Mr. Ellis reported that there had been a case of substantiated abuse.

### **Executive Session – Reported Incidents of Abuse from Juvenile Corrections Monitor**

*The Chair accepted a motion from Representative Juhnke, seconded by Senator Peters to go into executive session pursuant to SDCL 1-25-2, for the purpose of discussing a juvenile corrections matter. The Motion passed unanimously on a voice vote.*

The Committee came out of executive session and took no further action on matters discussed in Executive Session.

### **Department of Corrections – Report on Abuse and Neglect in Private Placement Facilities (Doc. 3)**

Mr. Doug Herrmann, Juvenile Division for the Department of Corrections was present to address the Committee. Mr. Herrmann answered Committee questions and reviewed the

confidential Semi-Annual Report on Abuse and Neglect in Private Placement Facilities. Mr. Herrmann testified that the volume of placements has declined. Some Committee discussion followed. No further action was deemed necessary.

#### **Department of Health – FY10 Single Audit Finding (Doc. 4)**

Ms. Doneen Hollingsworth, Secretary of the Department of Health was unavailable. This agenda item will be moved to a future meeting.

#### **Department of Legislative Audit – Review of the Other Fund Information by Agency (Blue Book Doc. 7)**

Mr. Bob Christianson, Department of Legislative Audit reviewed the contents of the Blue Book and explained the fund ranking. The Committee reviewed the listing of other funds and selected funds of interest they would like to review. This topic will be a future agenda item.

#### **Bureau of Administration – Discussions on the Process Implemented by the State to Track and Collect Bad Debts (Doc. 5)**

Mr. Paul Kinsman, Commissioner of the Bureau of Administration addressed the Committee on the process the State uses to track and collect bad debts. Mr. Kinsman testified that the State has contracted with a private company to collect the bad debts and report the results of those collection efforts back to the various State agencies. The current terms of the contract call for the private company to remit net of commissions, the amount due the State from the collection activities. The Committee asked numerous questions about this contract and the appropriateness of the private company remitting net collections. The contract calls for a one year renewal option, and Mr. Kinsman intends to discuss changing the terms of the contract whereby the private collection agency remits to the State the entire amount of collections and bills the State for their services. Mr. Kinsman also stated he would work with the Auditor General to obtain the necessary report from the private collection agency of collection activities on a periodic basis. The Committee was satisfied with the Commissioner's plan going forward.

#### **Office of the State Engineer – Various Topics (Doc. 6)**

Ms. Kristi Honeywell, State Engineer addressed the Committee regarding the role of the State Engineer's Office in managing construction projects in the State. Ms. Honeywell addressed Committee questions regarding:

- The bidding process
- Contract terms and conditions
- Contract retainage
- Progress payments
- Construction change orders
- Punch-list items
- Final payments
- South Dakota Codified Law (SDCL) 5-18B-10

The Department of Legislative Audit prepared a legislative history relating to SDCL 5-18B-10. The Committee heard public testimony on SDCL 5-18B-10 titled; "Plans and specifications prepared by architect or engineer." Representative Roger Solem testified via phone to concerns of private contractors, and Mr. Harvard Schulz, a private contractor testified with

respect to the relatively long timeline for receiving payments on State projects. The State Engineer's Office discussed that contracts are currently outstanding and a number of those outstanding contracts are in litigation. Ms. Deb Mortenson, a lobbyist with the Associated General Contractors briefly addressed the Committee and provided a handout regarding the Associated General Contractors concerns. The Committee decided that the Chair should meet with the Attorney General to get his opinion on some of the questions raised by the Committee.

### **Technical Institutions – Discussions on Enrollment, Tuition and Fees, and Effects of FY 2012 Budget Reductions**

Mr. Mark Wilson, Director, Office of Curriculum, Career and Technical Education for the Department of Education provided a handout with follow-up information the Committee had requested regarding budget reports and answered Committee questions. There was no further discussion.

### **Department of Revenue and the State Treasurer's Office (Doc's. 8 & 9)**

Mr. Andy Gerlach, Secretary of the Department of Revenue, Mr. Rich Sattgast, State Treasurer, and Ms. Sandy Tillman, Cash Manager for the State Treasurer's Office were present to address the Committee and to explain the May 2011 reporting error that occurred in the Monthly Statistical Report that is provided to the Bureau of Finance and Management (BFM) and the Legislative Research Council (LRC). This report is relied upon by BFM and LRC for budgetary purposes. Mr. Gerlach explained the tax collection process and how the reporting error occurred. In addition, the Mr. Gerlach described the additional internal control that has been put into place to prevent this reporting error from happening again. Mr. Sattgast and Ms. Tillman provided two handouts and also testified to changes made that should prevent this reporting error from happening again. No further action was deemed necessary by the Committee.

### **Future Items for Discussion**

- Review selected Blue Book funds for FY 2011
- Department of Health Audit Finding
- Department of Labor and Regulation's procedures for handling mediation of contract disputes involving public employees
- Chair to report back to the Committee on his meeting with the Attorney General
- Status of loans made to Pierre/Ft. Pierre and Dakota Dunes Communities due to flooding along the Missouri River

### **Future Meeting Date**

The tentative date for the next Committee meeting was scheduled for October 13, 2011.

*Representative Juhnke moved, seconded by Representative Dennert to adjourn the meeting. Motion prevailed unanimously on a voice vote.*

The Committee adjourned the meeting at 3:15 p.m.



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