

**REPORT OF THE
GOVERNMENT OPERATIONS AND AUDIT COMMITTEE
2013**

COMMITTEE MEMBERS

**Representative Dan Dryden, Chair
Senator Larry Tidemann, Vice Chair**

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Representative Melissa Magstadt
Representative Mark Mickelson
Representative Susan Wismer**

**Senator Corey Brown
Senator Jean Hunhoff
Senator Phyllis Heineman
Senator Larry Lucas**

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COMMITTEE RESPONSIBILITIES

The Government Operations and Audit Committee was established by South Dakota Codified Law (SDCL) 2-6-2. The Committee is appointed at each regular session of the Legislature. The Committee consists of ten members, five members from the Senate appointed by the President Pro Tempore of the Senate, one of whom shall be a member of the Judiciary Committee and five members from the House appointed by the Speaker of the House, one of whom shall be a member of the Judiciary Committee.

The responsibilities of the Committee are:

- To inquire and review any phase of the operations and the fiscal affairs of any department, institution, board or agency of the state;
- To examine records and vouchers, summon witnesses, examine expenditures and the general management of departments, as deemed necessary;
- To review any findings of abuse or neglect in a juvenile corrections facility;
- To review the annual report of the South Dakota 911 Coordination Board;
- To review the annual reports from each Department administering the funds received from the Building South Dakota Fund;
- To make a continuing study of the operation of the state's correctional system; and,
- To make a detailed report to the Senate and House of Representatives and submit a copy of its report to the Appropriations Committee of each House of the Legislature at the next succeeding session of the Legislature or any special session of the Legislature upon request of the body.

COMMITTEE ACTIVITY

Audit Reports

The Committee reviewed the South Dakota Single Audit Report and other separately issued audit reports for the fiscal year ended June 30, 2012.

Financial and compliance audits involve testing financial transactions of the state to determine that money is properly accounted for and expended in accordance with state and federal laws and regulations. All audits conducted of state agencies were consolidated and reported in the Single Audit Report. The Single Audit Report includes the Comprehensive Annual Financial Report for the State of South Dakota prepared by

the Bureau of Finance and Management, a schedule showing the federal awards administered by the state and related expenditures, and audit findings and recommendations issued by the Department of Legislative Audit.

The Single Audit Report was issued in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards issued by Comptroller General of the United States, U.S. Office of Management and Budget (OMB) Circular A-133, and South Dakota Codified Laws. A copy of this report may be obtained from the Department of Legislative Audit.

The Committee reviewed financial reporting, internal control and compliance deficiencies written on ten (10) state organizations, containing twenty (20) recommendations for corrective action. Seven (7) recommendations related to violations of federal laws and regulations; and, thirteen (13) recommendations related to inadequate internal control procedures over receipts, revenue collections, expenditures, and financial reporting.

The following represents the state agencies with audit findings and recommendations from fiscal years 2012 and 2011 and the implementation of fiscal year 2011 audit recommendations:

State Agency	Recommendations		
	Fiscal Year 2012	Fiscal Year 2011	FY2011 Implemented
Governor's Office of Economic Development	1	3	3
Bureau of Finance and Management	2	2	0
Department of Revenue	3	2	2
Soybean Research & Promotion Council	3	3	0
South Dakota Corn Utilization Council	2	2	0
Department of Tourism	1	0	N/A
Department of Social Services	0	2	2
Department of Game, Fish and Parks	2	0	N/A
Department of Labor Unemployment Insurance Fund	3	6	3
Department of Transportation	0	2	2
Board of Regents	1	1	0
South Dakota Housing Development Authority	2	2	1

N/A This agency did not have any FY2011 audit recommendations.

The Department of Revenue was asked to appear before the Committee to discuss two financial statement audit findings. The Commissioner of the Bureau of Finance and Management (BFM) and Department of Revenue staff addressed the Committee and presented a detailed corrective action plan with respect to the audit findings. No further action was deemed necessary by the Committee at this time.

The Department of Revenue was present, on a second occasion, to provide the Committee an update on the Bank Franchise Tax taskforce. A study group had been formed after the last Legislative session. The objective of the taskforce is to complete a red tape review of the current bank franchise tax code and bring recommended statutory improvements to the 2014 Legislature.

Specific Matters Pertaining to Various State Agencies

Criminal Justice

Over the course of two meetings, the Committee reviewed key provisions of the South Dakota Public Safety Improvement Act enacted during the 2013 Legislative Session. The Committee had follow-up questions regarding performance measures called for in the Act. A member of the newly created Oversight Council provided the Committee with the primary performance measures that have been developed so far.

The Committee also reviewed the reporting requirements identified in the Act. The law calls for an annual summary report to the Legislature from the newly created Oversight Council. The Committee will revisit this topic in the future.

Economic Development

The Committee reviewed key provisions of Senate Bill 235, which was the Economic Development bill from the 2013 Legislative Session. The law creates the Building South Dakota Fund (BSDF). The Committee questioned how results will be measured and reiterated the need to track the progress of the BSDF. The Deputy Commissioner for the Governor's Office of Economic Development answered Committee questions regarding the application process, when the money is awarded, when construction starts, and when it needs to be completed. The Deputy Commissioner assured the Committee that this fund will be monitored closely. Agencies receiving money from the BSDF are in the process of drafting rules for their respective agencies. The Committee would like testimony in the future regarding the goals these agencies have for using the money from the BSDF.

At the September 24, 2013 meeting, the Committee received additional information from the Governor's Office of Economic Development on the following programs under the Building South Dakota Fund:

- The Local Infrastructure Improvement Program has received eight grant applications with requested funds totaling \$3,249,192. Three grants were approved totaling \$694,657.
- The Economic Development Partnership Program has received thirteen grant applications with requested funds totaling \$2,060,781. Four grants were approved totaling \$292,600.
- The South Dakota Jobs Program has received one grant application with requested funds totaling \$56,000. The one grant was approved totaling \$28,000.

The Committee asked that the Governor's Office report back to the Committee on the allocation percentages of dollars from the Building South Dakota Fund and whether or not these percentages need to be adjusted. This topic will be revisited in the future.

Department of Education

The Secretary of the Department of Education addressed the Committee on the planned use of Workforce Education Funds. The Department of Education plans to present the rules for the distribution of funds starting in the spring of 2014 with the actual distributions occurring in 2015. They have been getting input from across the state on where the funds will be best used such as expanding the current Career and Technical Education (CTE) programs by hiring more instructors, upgrading the equipment, and adding more programs. There will most likely be a request for funds in the future for expanding dual credit opportunities. Funds were requested last year for advance placement opportunities and the Department is looking to do that same thing this year. The Department of Education will be looking at requesting additional funding for CTE programs statewide in the future. The Secretary answered Committee questions regarding how the Department of Education determines who gets funding and where the highest needs are in the state. The Department of Education will also be looking into having school districts pay tuition for CTE programs in the future.

The Secretary also explained the progress the Department of Education has made in developing performance measures. The Department is now focused on the goal that every student in South Dakota is college, career, and life ready. The Secretary has reorganized the entire Department to be focused on this primary goal. She indicated that three year delivery plans are developed to improve student outcomes. The Department continually reviews data to determine whether or not progress is being made in key areas that tie into the overall goal. Employee performance evaluations are now aligned with accomplishments made toward reaching the overall goal. In addition, the Department's budget will be aligned with the primary goal. The Committee was pleased with the Department's efforts in this area and will revisit this topic in the future.

Department of Corrections

The Governor's Chief of Staff was present to explain the key performance measures and budget drivers developed by the Department of Corrections. Regarding management performance the Department has identified a relatively small number of measures of agency performance that, taken together, would give an unbiased expert an accurate indication of the quality of the agency's work at the adult and juvenile facilities:

- Safety/Order:
 - Offender on offender assaults
 - Offender on staff assaults
 - Escapes, absences, absconders

- Use of segregation and confinement
- Staffing:
 - Institution staff to offender ratio and caseload averages
 - Staff turnover
 - Overtime by full-time-equivalent employee
- Staff training in evidence based practices
- Evidence based practices risk and needs assessments
- Evidence based practices recidivism rate of offenders who received career based training
- Various categories of recidivism rates

For budget drivers, the Department has identified a relatively small number of measures that, taken together, have strong predictive power for agency budgetary needs:

- Offender population
- Population cost per day
- Population classification, risk and needs
- Medical cost per day
- Food service cost per day

The Governor's Chief of Staff explained these measures will aid the Department in planning and management; help the Governor in oversight and management; aid the Legislature and the public in their review; and provide a foundation for the Department of Corrections to build upon. The Committee was pleased with the Department's efforts in this area and will revisit this topic in the future.

Office of the State Treasurer

Staff members from the State Treasurer's Office testified before the Committee on performance indicators developed for the Treasury Management Program and the Unclaimed Property Program. Actual performance data regarding the indicators was presented over the last four years. The following Treasury Management indicators were presented to the Committee:

- Warrants paid from Treasurer's account
- Warrants cleared
- Cash receipts
- Cash receipt vouchers processed
- Checks received from State agencies
- Wire transfers – in and out
- Returned items
- Interest earned
- Automated Clearing House (ACH) out
- ACH volume
- Certificates of deposit

- Public deposits – all current collateral
- Public pledges on file
- Veterinary student grades – since 1995

For the Unclaimed Property Program, the following performance indicators were presented to the Committee:

- Amount of claims paid
- Number of claims paid
- Number of properties paid
- Number of holder reports received
- Number of holder reports imported (manual entry)
- Number of properties received
- Records in unclaimed property database
- Stock portfolio valuation
- Outreach presentations

The Committee asked numerous questions and would like to continue its discussion with the State Treasurer.

South Dakota Housing Development Authority

The Executive Director of the South Dakota Housing Development Authority (SDHDA) addressed the Committee on the planned use of South Dakota Housing Opportunity Funds. The Committee requested that SDHDA provide a breakdown of the demand for funds versus the ability for the funds to be provided after the first round of applicants is complete.

Bureau of Administration

The Commissioner of the Bureau of Administration addressed the Committee on the State's process for purchasing property insurance. The Commissioner stated that a work group was formed to study the options available to the State and identified the new company that was selected as the State's property insurance carrier. A contract with the company was executed on May 1, 2013. The Commissioner stated that more options will be looked at in the future to see if it is possible to join with other groups to find additional savings. This topic will be revisited as more information becomes available.

Teachers in High-Need Areas of South Dakota

The Legislature has appropriate funds to Teach for America (TFA) for a number of years. TFA is a non-profit organization that has placed teachers in high-need areas of the State. The Committee developed questions in advance and invited the Executive Director for TFA to discuss the effectiveness of the TFA program in South Dakota. The Executive Director appeared before the Committee on two separate occasions. The

Executive Director explained that the expenses for Teach for America are primarily for recruitment, training, and support. The Committee requested that the Executive Director provide data on the progress and results of students under the leadership of Teach for America. The Committee also heard testimony from private individuals. The Committee may revisit this topic in the future.

Black Hills State University

To learn more about other programs designed to promote teacher placement in high-needs areas of South Dakota, the Committee invited in personnel representing the Black Hills State University's Project Select program. The Black Hills State University President explained that in the past six years the program has produced more than 100 teachers for South Dakota schools and 12 are now teaching in reservation and high-need schools. The goal of the program is to secure teachers who will have a long-term commitment to teach at high-needs schools in South Dakota.

University of South Dakota

The Committee also heard testimony from personnel representing the GoTeachSD program administered by the University of South Dakota. The program is part of the Teacher Quality Partnership Grant Program of the US Department of Education. The goals of GoTeachSD are to:

1. Develop highly qualified teachers, and place and retain these teachers within high-need elementary and secondary South Dakota schools, and
2. Develop and implement an innovative collaboration between an institute of higher education, high-need school districts, and rural communities served by these school districts.

Over five years, GoTeachSD will have prepared 75 teachers to serve in 49 high-need schools located within 19 South Dakota school districts.

Department of Labor and Regulation

The Deputy Director for the Division of Insurance was present to testify to the Committee regarding the licensing of health insurance companies under the Affordable Care Act that will take effect January 1, 2014. The Director explained how open enrollment will work, how premiums will be figured, how ratings will work, and talked about 10 essential benefits and cost-sharing.

The following information was obtained:

- All companies will be affected
- Grand-fathered in if in business before March 23, 2010
- June 15, 2013 deadline to file to sell within exchange
- Federal Risk Pool ends January 1, 2014

- State Risk Pool remains in effect
- Minimal changes for State employees
- Improved long-term care insurance

On a second occasion, the Department of Labor and Regulation was present to give an update on the Affordable Care Act and the South Dakota health insurance companies that are going to be certified. The Committee was informed that applications were due June 15, 2013 and on July 19, 2013 the following companies were certified:

- Avera Health
- Sanford Health
- DakotaCare
- Best Life & Health
- Delta Dental
- Dentegra
- Guardian Life

Open enrollment begins October 1st, 2013. The following answers were provided to the Committee:

- All carriers who applied to the exchange were approved.
- Blue Cross Blue Shield is not going to operate in the exchange and any carrier who wants to be a part of the exchange will have to wait until next summer to apply for the 2015 exchange, the 2014 exchange is closed.
- The rates have been approved and are on the carriers websites for viewing.

The Committee plans to revisit this topic in the future.

Department of Social Services

On three separation occasions, the Secretary of the Department of Social Services (DSS) provided the Committee an update on the status of the new Medicaid Management Information System (SD MedX). The Secretary outlined the history and current status of the upgrade. The Secretary testified to concerns that DSS has, and as a result their agency is meeting on a weekly basis to closely monitor the situation.

The Committee asked numerous questions about the project and the following information was obtained:

- The original contract amount was \$62 million.
- \$50 million has been spent on the project.
- The provider enrollment features are live on the system.
- Federal level changes have to be incorporated into the program.
- The BIT serves as IT support management for this program.

The Committee will revisit this topic in the future.

Bureau of Information and Telecommunications

The Bureau of Information and Telecommunications provided the Committee an update on the SD MedX project, from an IT perspective. The following answers were provided in response to the Committee's questions:

- The key differences with SD MedX will be the ability to submit electronically, better interaction with providers, and better process from start to finish for the filing of claims.
- The information gathered with this program will not be sold or shared at all.
- There will be no medical records involved in the new program.
- The goal with SD MedX is to make interfacing between entities better, not more difficult.
- There are currently 10 ½ FTE's that work with this project.
- The original contract amount was \$62 million and \$50 million has been spent on the contract.
- BIT will take over SD MedX 12 months after the program goes live no matter what.
- Negotiations of getting the program live started last October and the terms are still being negotiated.
- The departments that are involved have been meeting every other month in order to get a restart date determined.
- If Medicaid expands, the current program can handle a larger quantity of data, if needed.
- The contractor (CNSI) has had success in Michigan and Washington.
- Other states have used a subsidiary of Xerox which rewrites their program and then the state takes over, which is what we are requesting with CNSI.

Governor's Office

The Governor's Office along with the Bureau of Administration, Office of the State Engineer addressed the Committee on the current status of the veterans' home project. Estimated project costs have been reduced by condensing the building's square footage, by going from one level to two levels, by straightening out the exterior, and by the Department of Transportation's offer to help transport the debris from the construction site. The goal for groundbreaking is set for September 25, 2013. The followings answers were given to the Committee in response to their questions:

- Going to two levels will not create a problem in the case of an emergency as the main floor will be the skilled nursing level and the second floor will be the residential-style living.
- There is not a foreseeable need for future funding.
- The changes will not affect the quality of the facility.

- Working with the construction manager upfront has helped in the planning and budgeting process.
- The number of people that will be served has not been reduced.
- The Veterans Administration will have to give the final approval.
- The changes made on January 13, that required an increase in the budget were due to Veterans Administration's required care provisions. The provisions called for 13 people per wing as opposed to the 17 per wing in the original plan.
- The ability to cut 20% is due to various project modifications.
- The estimated completion date of the project is November 2015.

The Bureau of Administration provided the following answers to the Committee:

- The construction manager at risk, traditional design with an architect, and the design build process are the options we have to choose from when constructing a new building.
- The traditional design with an architect is the most used process, but the construction manager at risk is the best and most effective option.
- There are different methods of construction that are available in statute; it is just a matter of making sure the funding is secure in order to use certain methods.

Department of Game, Fish and Parks

The Game, Fish and Parks Division Director for Administration was present to address the Committee regarding the Big Horn Sheep license draw. There was a mishap in the emailing process. The Director provided a handout that showed the previous way drawings were held versus the way it will be done from now on. The Director discussed what happened the day of the drawing, what went wrong, and how the mistake was corrected. The new email process has been used successfully since June 2013. The Director answered questions regarding the pricing of a Big Horn Sheep license and how the process of applying for a license is separate from the drawings of the licenses.

The Committee asked the Department Secretary to explain the progress that had been made in negotiating a compromise with landowners affected by non-meandering water, particularly in northeastern South Dakota. The Secretary explained that a proposal was presented to the attorneys that represented the Non-Meandering Waters Association of South Dakota; however, the attorneys rejected the proposal. The Committee encouraged the Secretary to continue efforts to reach a compromise before the next Legislative session.

The Director of Administration was present to discuss the significant reductions to the cash balances in Game, Fish and Parks Fund and the Parks and Recreation Fund. He explained that the Game, Fish and Parks Fund cash balance has decreased over the last couple years to build the outdoor campus in Rapid City. He also explained that the decreased cash balance in the Parks and Recreation Fund was the result of the need to repair damaged State Parks from the 2011 Missouri River flood. The Game, Fish

and Parks was not eligible for Federal Emergency Management Funds and the repair costs had to then come out of the Parks and Recreation Fund.

Department of Public Safety

The State 911 Coordinator appeared before the Committee to present the 2013 Annual Report of the South Dakota 911 Coordination Board. The report included:

- Board membership
- Summary of Board activities
- Review of actions required by State law
- Surcharge collections report
- 911 Coordination Fund condition statement
- City/County annual financial report summary

The State 911 Coordinator also provided a map to the Committee of the Public Safety Answering Points in South Dakota. The Committee asked questions about the next generation 911 system that is in the planning stage and will revisit this topic in the future.

Juvenile Corrections

The Committee is charged with the responsibility to review any findings of abuse or neglect of juveniles in a juvenile correctional facility.

The Committee receives a semi-annual report from the Juvenile Corrections Monitor (JCM) as required by state law. This report details complaints received at the state owned juvenile corrections facilities. The JCM must immediately notify the Governor, Department of Corrections Secretary, and the Government Operations and Audit Committee in writing of any substantiated abuse or neglect.

The Committee requested that the Attorney General review various juvenile corrections reports to assure that no personally identifiable confidential information was contained in the reports prior to releasing the documents as public information.

The semi-annual Juvenile Correction Monitor Reports for the period July 1, 2012 through December 31, 2012, and for the period January 1, 2013 through June 30, 2013, along with the Department of Corrections semi-annual Reports on Allegations of Abuse and Neglect in Private Placement Facilities for the period July 1, 2012 through December 31, 2012, and for the period January 1, 2013 through June 30, 2013, were reviewed by the Committee. The reports contained two sections prescribed by state law. The first section contains the public information portion of the report and the second section contains the confidential information which is not open to public inspection.

The Committee reviewed the report entitled Allegations of Abuse and Neglect in Private Contracted Facilities and discussed policies and procedures with the Department of Corrections. The Committee requested and has been receiving these reports on a semi-annual basis like the Juvenile Corrections Monitor Report. Committee discussion centered on policies and procedures and corrective action taken by the Department to address any problems/issues identified.

The Department of Corrections provided a handout of the separate statutes regarding abuse of minors. The Department suggested the statutes need to be clarified. The Committee requested that the applicable agencies meet and come back to the Legislature with their recommended changes.

Blue Book

The Government Operations and Audit Committee requested that the Department of Legislative update the “Blue Book” (Other Fund Information by Agency) with current June 30, 2013 trial balances for all other funds of the state. While this does not identify funds available for appropriation, the information is useful for identifying funds that warrant a closer review. The completed Blue Book, with June 30, 2013 information, was provided to the Committee at the August 21, 2013 meeting.

At the Committee’s request, the Department of Legislative Audit provided a list of Other Fund companies with little or no activity in the last two years. From that list the Committee recommended that draft Legislation be prepared to repeal certain outdated laws. In addition, the Committee requested more information from agencies regarding the continued need for the following Other Fund companies:

- Livestock Disease Emergency Fund – Department of Agriculture
- South Dakota Energy Infrastructure Authority – Governor’s Office of Economic Development
- Reclamation Fund – Department of Environment and Natural Resources

Currently, the Board of Regents Other Funds are not listed in the Government Operations and Audit Committee Blue Book. The Board of Regents appeared before the Committee in an effort to develop a reporting format that would be acceptable to the Committee. The Board of Regents will plan to incorporate the Other Fund activity in future Blue Books.

In summary, the Committee reviewed the following Other Funds contained in the Blue Book:

- Game, Fish and Parks Fund, Company 3122
- Parks and Recreation Fund, Company 3125
- Livestock Disease Emergency Fund, Company 3151
- South Dakota Energy Infrastructure Authority, Company 6527
- Reclamation Fund, Company 3075

- Private Activities Bond Fund, Company 3015
- HMC Natural Resources Restoration Fund, Company 3122
- SD Supplemental Retirement Administration, Company 3090
- Environmental Livestock Cleanup Fund, Company 3075
- Well Rehabilitation and Plugging Subfund, Company 3075
- Legislative Capitol Renovation Fund, Company 3024
- Escheated Personal Property Fund, Company 3108
- Human Services, Company 5018
- Department of Corrections Building Improvement Fund and the Department of Human Services Building Improvement Fund, Company 3007
- Memorial Maintenance Fund, Company 3007
- Honey Industry Fund, Company 3050
- Unclaimed Funds Account, Company 8311
- Postsecondary Technical Credentialing Fund, Company 3138
- State Library, Company 3146
- National Guard Museum and State Weapons Collection Fund, Company 3147
- Veterans' Freedom Memorial Fund, Company 3149
- Veterans Affairs Division Special Revenue Fund, Company 3149
- City/County M&R, Company 5008
- Fund for Registration of Interpreters for the Deaf, Company 3046
- DHS Canteen Fund, Company 6508
- Telecommunication Investigation Fund, Company 8316
- UJS Other, Company 8303
- LRC Postage Administration, Company 6501
- Conservation District Special Revenue Fund, Company 3061