

**REPORT OF THE
GOVERNMENT OPERATIONS AND AUDIT COMMITTEE
2009**

COMMITTEE MEMBERS

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Senator Craig Tieszen, Vice Chair**

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Representative Paul H. Dennert
Representative Kent Juhnke
Representative Charles M. Turbiville**

**Senator Julie Bartling
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Executive Summary

Committee Responsibilities

The ten member statutorily created Government Operations and Audit Committee's responsibilities include inquiry and review of any phase of the operations and fiscal affairs of any department, institution, board or agency of the state and the review of operations of the state's correctional system including review of abuse or neglect in juvenile correction facilities.

Committee Activities

During the interim, the Committee was very active in reviewing:

- cash and accumulated fund balances of "Other Funds"
- juvenile correction monitor reports
- reports of alleged abuse or neglect of juveniles in private placement facilities
- audit findings included in the Statewide Single Audit
- obsolete, inconsistent or unnecessary statutes concerning "Other Funds"
- numerous miscellaneous areas and concerns raised by current events or individual members of the Committee

Review of Cash Balances of Various State "Other" Funds

The Committee completed its review of cash balances and accumulated fund balances of the various "Other Funds" of the State of South Dakota.

Juvenile Corrections Issues and Reports

The Committee reviewed the semi-annual Juvenile Corrections Monitor Reports as well as any reports on substantiated cases of abuse or neglect involving juveniles in the custody and care of the Department of Corrections. The Committee also received and reviewed semi-annual reports on Alleged Abuse and Neglect of Juveniles in Private Contracted Facilities.

Review of Audit Findings and Reports

The Committee requested seven agencies to appear before the Committee and respond to their respective audit findings. Corrective action included:

- agreement to improve internal control over administering various aspects of external financial reporting
- agreement to improve internal controls over computer systems access rights

- the implementation of a new financial accounting loan portfolio system to ensure the accuracy of the amounts reported in the financial statements and the accuracy of information contained in federal reports
- implementation of additional edits within the Medicaid Management Information System and enhancements to card issuance procedures
- reimbursement of funds to the Amtrak fund for unallowable costs

General Fund Contract Encumbrances

The Committee continued to review encumbrances at fiscal year end given issues raised in previous years. Agencies with encumbrances of interest were asked to appear and explain what the encumbrance was and why it was necessary to be carried over.

Review of Specific Matters Pertaining to Various State Agencies

Other areas addressed by the Committee included:

- Follow-up on licensure issues involving the SD Electrical Commission
- Office of Procurement Management update on re-design of bidding office supply contracts
- Monitoring flow through of federal stimulus money
- Developments in the Birth to Three program
- Feedback on training/orientation provided to new personnel hired by various Boards and Commissions in relation to financial reporting
- The role the Department of Social Services plays separately and in conjunction with the Department of Corrections regarding matters concerning juveniles in placement facilities
- How the South Dakota Housing Development Authority plans to manage and account for money received from the American Recovery and Reinvestment Act
- Billing process used by the Archaeological Research Center
- The issue of maintenance and advertising at state rest areas
- Selection process used by Board of Regents in hiring of new executive director
- Black Hills Fire Mitigation Program's use of hand crews versus private contractors in clearing of downed materials
- Update on remodeling of Capitol Lake Plaza and State Library buildings
- Reviewed specific information from the Department of Corrections on out-of-state juvenile placement facilities
- The benefits of the Board of Regents being a member of Midwest Higher Education Compact (MHEC)
- Bureau of Finance and Management's internal control procedures for processing budget maintenance and budget transfer documents
- Department of Social Services Surveillance Utilization Review Subsystem Overview (SURS) for fraud prevention and recovery

Committee Responsibilities

The Government Operations and Audit Committee was established by South Dakota Codified Laws (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 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

The Committee conducted the following review activities during 2009:

- Audit reports issued including the Statewide Single Audit
- General Fund contract encumbrances
- Specific matters pertaining to various state agencies
- Juvenile Corrections Monitor Reports and activities
- Cash balances of various state funds

Reviewed Audit Reports

The Committee reviewed the South Dakota Single Audit Report for the fiscal year ended June 30, 2008 and separately issued audit reports issued during 2009. The following summarizes the actions that were taken by the Committee.

Financial and compliance audits involve testing financial transactions of the state to determine that all 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 twenty-five (25) state organizations, containing thirty-seven (37) recommendations for corrective action. Four (4) recommendations related to violations of state laws and regulations; eight (8) recommendations related to violations of federal laws and regulations; and, twenty-five (25) 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 2008 and 2007 and the implementation of fiscal year 2007 audit recommendations:

State Agency	Recommendations		
	Fiscal Year 2008	Fiscal Year 2007	FY2007 Implemented
Bureau of Finance and Management	3	2	0
Bureau of Administration	1	1	1
Department of Revenue and Regulation	2	1	1
Real Estate Commission	1	1	1
Department of Agriculture	0	3	3
Soybean Research & Promotion Council	1	0	N/A
South Dakota Corn Utilization Council	3	2	0
Economic Development Finance Authority	2	1	0
Department of Tourism and State Development	1	2	1
Science and Technology Authority	4	5	1
Department of Game, Fish & Parks	1	0	N/A
Department of Social Services	2	5	5
Department of Health	0	3	3
Board of Medical and Osteopathic Examiners	1	1	0
Department of Labor Unemployment Insurance Fund	4	4	0
Department of Labor Board of Accountancy	1	0	N/A
Department of Transportation	5	14	11
Department of Education	0	2	2
Board of Regents	1	3	2
University of South Dakota	0	1	1

South Dakota State University	0	1	1
South Dakota School of Mines and Technology	0	4	4
Department of Human Services	3	0	N/A
School and Public Lands	0	2	2
South Dakota Housing Development Authority	1	1	1
N/A This agency did not have any FY 2007 audit recommendations.			

The Committee sent letters to state agencies with audit findings and encouraged the state agencies to implement the audit recommendations. The Committee requested state agencies to provide written reports to the Committee on the status of actions taken to implement the audit recommendations. Seven state agencies with audit findings were asked to appear before the Committee to discuss the audit findings. The Committee continues to monitor the responses and corrective actions taken by state agencies.

Department of Revenue and Regulation

The Department of Revenue and Regulation appeared before the Committee to discuss an audit finding relating to access rights to Department computer systems that were not removed on a timely basis for terminated employees. The Department explained actions taken to resolve the issue. No further action was deemed necessary by the Committee.

Department of Tourism and State Development

The Department of Tourism and State Development appeared before the Committee to discuss audit findings relating to the Department’s action plan to improve the external financial statement reporting process. The Department explained actions taken already to resolve the issues raised by the audit findings. No further action was deemed necessary by the Committee.

Department of Human Services

The Department of Human Services appeared before the Committee to discuss federal compliance audit findings relating to inaccurate information contained in the annual Vocational Rehabilitation Program Cost Report and insufficient periodic certifications for employees working on a single federal program. The Department explained actions taken to resolve the issues. No further action was deemed necessary by the Committee.

Department of Labor

The Department of Labor Unemployment Insurance appeared before the Committee to discuss audit findings relating to the Department’s action plan to improve the external financial statement reporting process. The Department explained actions taken to resolve the issues raised by the audit findings. No further action was deemed necessary by the Committee.

South Dakota Board of Regents

The South Dakota Board of Regents appeared before the Committee to discuss audit findings relating to internal controls over accounting and financial reporting. The Board of Regents explained actions taken to resolve issues raised by the audit findings, and expressed a need for more FTE's at the larger universities to handle the work load and have financial statements prepared in a timely manner. The Committee will continue to monitor this situation.

Department of Transportation

The Department of Transportation appeared before the Committee to discuss audit findings relating to unallowable expenses for Amtrak Funds, inadequate internal control over third-party billing and year end inventory cutoff, and requesting reimbursement of federal fund expenditures in a timely manner. The Department explained actions taken to resolve issues raised by the audit findings. No further action was deemed necessary by the Committee.

Department of Social Services

The Department of Social Services appeared before the Committee to discuss a federal compliance audit finding relating to post-payment reviews to detect possible improper payments. The Department explained actions taken to resolve issues raised by the audit findings. No further action was deemed necessary by the Committee.

Reviewed General Fund Contract Encumbrances

This area continues to be an on going agenda item of Committee interest. In prior years, issues were identified concerning how General Fund appropriations were being carried over from one fiscal year to the next by inappropriate means. The Committee decided that encumbrances should be reviewed periodically to identify potential issues on a timelier basis.

The Committee completed a review of General Fund contract encumbrances that were in effect during fiscal year 2010. The General Fund contract encumbrances included 73 contract carryovers totaling \$24,012,732. This continues to be an ongoing agenda item of the Committee.

The contract encumbrances are approved by the Bureau of Finance and Management (BFM) on an annual basis. The Committee requested and received copies of the following contracts from BFM:

- The Department of Revenue contract with South Dakota State University.
- The Department of Tourism and State Development contract with Black Hills Digital Strategy.
- The Department of Tourism and State Development contract with River City Racin'.

- The Department of Tourism and State Development contract with Goss Gallery.
- The Department of Tourism and State Development contract with Thurman and Thurman.
- The Military and Veterans Affairs contract with Banks, Johnson, Colbath, Sumner & Kappelman, Attorneys & Counselors at Law.
- The Department of Corrections contract with Syscon Justice Systems, Inc.
- The Department of Social Services contract with Client Network Services, Inc.

The Committee requested follow up information on the contracts.

Reviewed Specific Matters Pertaining to Various State Agencies

South Dakota Electrical Commission

The Committee, with the help of the Department of Labor, will continue to monitor the licensure procedures and issues of the South Dakota Electrical Commission. The Committee reviewed much documentation regarding licensing and reciprocity concerns. This topic may be revisited in the future.

Office of Procurement Management

During fiscal year 2008, the Office of Procurement Management did not have adequate controls to ensure that all bid lettings released were advertised in accordance with SDCL. The Committee requested information from the Office of Procurement Management on the new process for bidding state contracts. The Committee was informed of the new procedure and would like to be updated as to the success of the process.

Federal Stimulus Money

The Auditor General for the Department of Legislative Audit explained the Department's plan for monitoring the flow through of approximately \$395,000,000 of additional federal dollars from the stimulus bill. This subject will continue to be an agenda item for future Committee meetings.

Birth to Three Program

The Committee requested a letter be sent to the Department of Education requesting an update on the Department's administrative review of the Birth to Three program. The Birth to Three program has undergone significant changes during the past year. The Department of Education has formed a workgroup of parents, providers, and service coordinators to address family cost participation, the travel reimbursement formula, and Medicaid billing. The Birth to Three program plans to provide periodic training to address questions/concerns of current and new providers. Birth to Three will also maintain a website to give field providers and recipients a source of information. The Committee will continue to follow developments in the Birth to Three program as they occur.

Boards & Commissions

The Committee heard testimony from various boards and commissions regarding financial reporting audit findings. The Committee questioned the training provided to newly hired personnel and action plans to avoid repeat findings.

Department of Social Services/Department of Corrections

The Committee requested that a letter be sent to the Department of Social Services requesting information on the role the Department of Social Services plays separately and in conjunction with the Department of Corrections in matters concerning juveniles in placement facilities. The Committee received the requested information. The Committee also requested detailed information from the Department of Corrections on out-of-state facilities. The requested information was received.

South Dakota Housing Development Authority

The Committee received information from the South Dakota Housing Development Authority stating that a section titled Stimulus Funding had been added to their web site: www.sdhda.org. No further action was deemed necessary at this time.

Archaeological Research Center

The Committee received information from the South Dakota State Historical Society and the Director of the Archaeological Research Center regarding the procedure used for billing for services. The Center sometimes works in conjunction with other State agencies and bills at an approved rate that cannot be raised. No further action was deemed necessary at this time.

State Rest Areas

The Committee requested that the Department of Transportation appear to clarify questions on the use of state rest areas by non-governmental organizations and the Department's weed control operations along state highways. No further action was deemed necessary by the Committee.

Board of Regents

The Committee requested that the Board of Regents appear before the Committee for an update on the selection process used to hire a new executive director. The Executive Director for the Board of Regents provided information on the professional consulting contract utilized in the selection process. The Board of Regents makes the final decision on hiring. The Board of Regents also shared information on Midwest Higher Education Compact (MEHC). No further action was deemed necessary by the Committee.

Black Hills Fire Mitigation Program

The Committee requested that the Department of Agriculture, Wildland Fire Coordinator appear before the Committee to provide information on the function of the Black Hills fire mitigation program. The Wildland Fire Coordinator explained the function of the hand crews employed by the Black Hills fire mitigation program and how private contractors secure work versus the hand crews in clearing of downed materials. This program consists of grant money used to reimburse private land owners. The Committee watched firefighting during its West River Tour in September.

Capitol Lake Plaza/State Library Remodeling

The Committee requested information from the Bureau of Administration on several major remodeling projects that are underway. The Bureau of Administration reported on the progress and objective of the remodeling. The goal is to make the buildings more energy efficient with savings on lighting, heating, and cooling. The Bureau also testified that some projects may qualify for stimulus money. This topic may be revisited in the future as cost savings are documented.

Reviewed 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, 2008 through December 31, 2008, and for the period January 1, 2009 through June 30, 2009, along with the Department of Corrections Semi Annual Reports on Allegations of Abuse and Neglect in Private Placement Facilities for the period July 1, 2008 through December 31, 2008, and for the period January 1, 2009 through June 30, 2009, were reviewed by the Committee. The reports contained two sections which is in compliance with the new law passed during the last Legislative session. 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 Committee requested that information be provided by the Department on juveniles placed in out-of-state facilities. The Committee wanted to know whether or not the Department tracks what happens to these juveniles after out of state care has been provided and what are the outcomes for these juveniles. This information was provided to the Committee.

Reviewed The Updated Blue Book

The Government Operations and Audit Committee had requested that DLA update the "Blue Book" (Other Fund Information by Agency) with current June 30, 2009 trial balances for all other funds of the state. While this does not identify funds available for appropriation, the information is useful for identifying those funds that are candidates for closer review and work. The updated Blue Book was provided to the Committee. The Committee then approved the criteria for fund review approved by the Subcommittee on Informational Fund Balance and requested DLA to use those criteria plus several other criteria to rank all funds within the Blue Book for purposes of placing priority on which funds to review in depth. This criteria and ranking of all other funds was provided to the Committee. The Committee reviewed the listing and decided to take the first 100 ranked funds and determine which agencies have the most funds within the top 100 and then request that the agency prepare and submit condition statements to the Committee for its review for all funds administered by those agencies. The Committee reviewed the following agencies and funds:

Department of Revenue

1. Company 3036 – Petroleum Release Compensation Fund
2. Company 3038 – Tax Relief Fund
3. Company 3076 – License Plate Revolving Fund
4. Company 3177 – State Motor Vehicle Fund
5. Company 3183 – SD Insurance Agent and Broker Continuing Education Fund
6. Company 6520 – Insurance Examination Fund
7. Company 6520 – Subsequent Injury Fund

Department of Agriculture

1. Company 3002 – Wheat Commission
2. Company 3050 – Nursery Fund
3. Company 3050 – Weed and Pest Control Fund
4. Company 3054 – Soybean Research and Promotion

Department of Human Services

1. Company 3046 – Other Fees
2. Company 3046 – Prescription Drug Plan
3. Company 3091 – Telecommunication Fund for the Deaf

Bureau of Administration

1. Company 3007 – Statewide Maintenance and Repair Fund
2. Company 3113 – Maintenance of Buildings and Grounds
3. Company 6008 – Fleet & Travel Management
4. Company 6014 – Public Entity Pool for Liability

Department of Health

1. Company 3049 – Tobacco Prevention and Reduction Trust Fund
2. Company 6503 – Board of Medical and Osteopathic Examiners

Department of Transportation

1. Company 6517 – Railroad Authority Fund
2. Company 3042 – Railroad Administration Fund
3. Company 6012 – Special Aviation Internal Service Fund
4. Company 3044 – Railroad Trust Fund
5. Company 3040 – State Highway Fund
6. Company 3041 – State Aeronautics Fund
7. Company 3043 – Amtrak Fund
8. Company 3044 – Local Government Transportation Technical Transfer Fund

Game, Fish and Parks

1. Company 3121 – Game, Fish and Parks Administration Fund
2. Company 3125 – Parks and Recreation Fund
3. Company 3126 – Snowmobile Trails Fund
4. Company 3123 – Animal Damage Control Fund
5. Company 3122 – Game and Fish Fund
6. Company 3124 – Land Acquisition and Development Fund

Department of Corrections

1. Company 3023 – Local and Endowment Fund

Attorney General's Office

1. Drug Control Fund
2. Company 8302 – Anti-Trust Special Revenue Fund
3. Company 3000 – Other Funds

The completed Blue Book, with June 30, 2009 information, was provided to the Committee during the September 21, 2009 meeting.

Toured State Operations

The Committee toured various State run facilities in western South Dakota on September 9 & 10, 2009. The following is a brief description of Committee activities:

Unified Judicial System Drug Court

The Committee met with the Drug Court administrator along with a graduate from the Drug Court program. The Committee was able to ask questions from both the perspective of the State as well as a participant in the program. The program started out as a pilot project two years ago. The Committee heard about the benefits to the participants, cost of the program, benefits to the community and future improvements being made to the program.

South Dakota Science and Technology Authority

The Committee met with the Executive Director of the South Dakota Science and Technology Authority in Lead. The Director explained the progress the Authority has made in developing the underground laboratory and the status of future projects. The Committee asked questions about the financial position of the Authority and projected funding needs. The Director provided this information along with information about the timeline for the proposed National Science Foundation Deep Underground Science & Engineering Laboratory (DUSEL).

South Dakota State Archaeological Research Center

The Committee toured the State's Archaeological Research Center in Rapid City with the Director and State Archaeologist. The Director explained that the Center keeps a database of information on all known archaeological sites in South Dakota. In addition, the State Archaeologist works to protect important archaeological sites in South Dakota by working closely with federal and state agencies in carrying out their cultural resource management obligations. The Director provided the Committee answers to questions about the Center's involvement on various state and federal projects and the costs associated with operating the Center.

Birth to Three Program Provider

The Committee toured the facilities of a Birth to Three provider in Rapid City. The Committee asked questions about the program from the perspective of the provider.

Department of Agriculture, Wildland Fire Suppression Division

The Committee met with the Department of Agriculture, Wildland Fire Coordinator at the Custer State Park airport. The Committee viewed a fire suppression demonstration and had an opportunity to see first hand the resources used by the Division to fight fires in the Black Hills. The Coordinator provided answers to Committee questions regarding the cost of operations. Information was also provided on the coordination of program activities with other Federal agencies.

Department of Corrections

The Committee met with the Secretary of the Department of Corrections and toured the Quest and Excel girls programs in Custer State Park. The tours were led by girls currently in the program. The Committee asked questions of the girls about various

aspects of the program. The Committee observed the classrooms and the courses that the girls participated in on a daily basis.

The Committee toured the Star West Campus, Brady Academy, Youth Challenge Centers and Admissions that make up the boys programs. Boys currently in the program led the tour which included the educational areas, dormitories, medical area, recreational areas and the physical plant. The Committee was able to discuss the program with several of the boys and ask the administration about the outcomes of the programs.

Lastly, the Committee toured the Rapid City Minimum Unit (old and new facilities) with the Department Secretary. The Secretary answered questions about both facilities and the future plans for the minimum unit.

GOAC Committee – Paperless Update

All Committee correspondence and requested information is available via the LRC website. Most information is available prior to the meeting, with updates done when late material is submitted. The Juvenile Corrections Monitor Report will not be available in advance of the Committee meeting date and then only the public portion of the report will be available in the paperless environment.