

SOUTH DAKOTA STATE RAILROAD BOARD
REGIONAL RAILROAD AUTHORITIES SPECIAL REVIEW
January 1, 2011 Through December 31, 2014



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AUDITOR GENERAL

State Railroad Board Members

South Dakota State Railroad Board
Pierre, South Dakota

A motion approved by the South Dakota State Railroad Board on January 15, 2014 authorized the Department of Transportation to request the Department of Legislative Audit to conduct reviews of regional railroad authorities that currently have a loan or lease with the Department of Transportation. At the Department of Transportation's request, we conducted procedures at each of those regional railroad authorities. Our procedures did not constitute an audit conducted in accordance with generally accepted government auditing standards and do not extend to, and we do not express an opinion on, any financial statements or reports of the regional railroad authorities. In addition, these procedures were not conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants.

Accompanying this letter is our report on the work that we performed. The report contains an Executive Summary and a detailed section discussing the results of our procedures and related recommendations related to each regional railroad authority reviewed.

We want to thank the State Railroad Board members, the staff of the Department of Transportation, and the personnel at each regional railroad authority for the cooperation and assistance provided to us while we conducted our work.

Martin L. Guindon
Auditor General

June 9, 2015

Special Review of Regional Railroad Authorities

Executive Summary

At the request of the South Dakota State Railroad Board and the Department of Transportation, we conducted reviews of regional railroad authorities that had a loan or lease with the Department of Transportation as of April 2014.

The thirteen (13) regional railroad authorities we reviewed are as follows:

<u>Regional Railroad Authority Name</u>	<u>Loan and/or Lease</u>
Aberdeen-Brown County Regional Railroad Authority	Loan
Brookings County Regional Railroad Authority	Loan
Day County Regional Railroad Authority	Loan
East Central Regional Railroad Authority	Loan & Lease
Grant County Regional Railroad Authority	Loan
Hand County Regional Railroad Authority	Loan
Hughes County Regional Railroad Authority	Loan
Kingsbury County Regional Railroad Authority	Loan
Marshall Regional Railroad Authority	Loan & Lease
MRC Regional Railroad Authority	Loan & Lease
Napa-Platte Regional Railroad Authority	Lease
Sioux Valley Regional Railroad Authority	Loan & Lease
Sully County Regional Railroad Authority	Loan

Following is a summary of the areas that we reviewed, the procedures we used in conducting the reviews and our findings and related recommendations for each of the areas reviewed for all regional railroad authorities. A more detailed description of the procedures we performed and our recommendations for each regional railroad authority can be found in each individual regional railroad authority report.

Regional Railroad Authority's Procedures for Appointing Board Members

South Dakota Codified Law (SDCL) 49-17A-6 states:

The representatives of the subdivisions which are members of a regional railroad authority shall elect commissioners of the regional railroad authority. The number to be elected and their representation shall be provided for in the agreement. All commissioners of a regional railroad authority shall be elected for a term of three years. Vacancies shall be filled for the unexpired term in the same manner as the original elections. Each commissioner shall hold office until his or her successor has been elected and qualified.

We found through communication with various officials who are members of the regional railroad authorities, that in 8 of the 13 reviewed, the appointment of board members was not always done in accordance with SDCL 49-17A-6.

Related Recommendation:

1. We recommend that the regional railroad authorities communicate with all member governments about the election/appointment of board members to ensure compliance with SDCL 49-17A-6.

Regional Railroad Authority's Procedures for Documentation of Official Meetings and Related Procedures and Filing Proper Documentation with the Secretary of State's Office

We reviewed the regional railroad authorities' procedures for holding meetings, including the preparation and posting of meeting agendas; the taking of meeting minutes; the retention procedures of the meeting minutes; and, the filing of required documentation with the Secretary of State's office.

We determined that when meetings of a regional railroad authority's board are held, notice of the meeting should be posted in the member governments' offices. In most cases, meetings are held on an as needed basis and in some instances, meetings are conducted telephonically.

We noted through communication with various officials who are members of the regional railroad authorities, that in 10 of the 13 authorities reviewed, the member governments did not recall receiving or posting meeting notices or agendas.

We also found that minute notes of board meetings were available and all necessary documentation had been filed with the Secretary of State in 12 of the 13 authorities reviewed.

Related Recommendations:

2. We recommend that the regional railroad authorities comply with open meetings laws, by posting a meeting notice and copy of the proposed agenda of board meetings at all member governments to ensure compliance with SDCL 1-25-1.1.
3. We recommend that the regional railroad authorities prepare and retain minute notes for all meetings.
4. We recommend that the regional railroad authorities file all necessary documentation with the Secretary of State's office.

Regional Railroad Authority's Procedures Related to the Monitoring of Cash Assets

We reviewed the regional railroad authorities' procedures related to the monitoring of cash assets. We noted varying methods in which the regional railroad authorities monitored cash assets, primarily varying based on the level of the authority's financial activity. In 11 of the 13 authorities reviewed, they had from one bank account (usually a checking account) up to four separate bank accounts. In the two authorities that did not have a bank account, one used a member county's accounting system to monitor the cash assets activity and the other had no bank account and simply endorsed checks received over to the industry.

Many of the regional railroad authorities used the bank account statements to monitor the cash assets. In instances where the authority has very limited financial activity this may be adequate; however, for those authorities that have more financial activity, the establishment of basic accounting records would enhance monitoring of the cash assets. This is especially important

for the authorities that have lease revenues and surcharge revenues. The use of only the bank account statements does not account for financial transactions paid on behalf of the authorities.

Related Recommendation:

5. We recommend that the regional railroad authorities establish some basic accounting records such as a General Ledger, Cash Receipts Journal and Cash Disbursements Journal to enhance monitoring of cash assets when financial activity warrants it.

Regional Railroad Authority's Procedures Related to the Revenue Process

We reviewed the regional railroad authorities' procedures related to the revenue receipting process. As we noted above with monitoring of cash assets, there were varying methods used by the authorities to process revenues, primarily based on the financial activity of the authority. We observed that none of the authorities we reviewed exercised its power to levy and generate property tax revenues during the period of our review. However, the authorities collected revenues from a number of other different sources, such as, lease and sublease revenues, car surcharge revenues, payments from industries for loan repayments and interest income.

Of the 8 authorities that had only loans, only one was issuing receipts for collection of revenue; however, in the case of the other 7 authorities, they received very little, if any, revenue. We also found that for the 5 Regional Railroad Authorities that had loans and leases, only one was issuing receipt for the collection of revenues.

For the authorities that collect revenues for car storage, the short line operator will bill third parties for car storage and then make payments to the Department of Transportation and/or to the authority. The Department of Transportation and the authority receive documentation from the short line operator regarding the number of cars stored on the line. However, nothing is done by the authority or the Department of Transportation to verify the amount paid by the short line operator is correct.

As noted previously, many of the authorities did not maintain any basic accounting records to track the revenues received or paid on behalf of the authorities. Many simply relied on the bank statements and confirmation of receipt (loan payments made on their behalf) from the Department of Transportation. Even those authorities that did maintain accounting records did not consistently record in the accounting records the receipts sent directly to the State on the authority's behalf.

Related Recommendations:

6. We recommend that the regional railroad authorities establish some basic accounting records such as a General Ledger, Cash Receipts Journal and Cash Disbursements Journal to enhance monitoring of cash assets when financial activity warrants it.
7. We recommend that a system of verification be implemented to ensure that the payments from the short line operators are correct.
8. We recommend that the regional railroad authorities record all revenues in their accounting system by issuing receipts for cash and recording appropriate accounting entries for non-cash transactions.

Regional Railroad Authority's Procedures Related to the Expenditure Process

We reviewed the regional railroad authorities' procedures related to the expenditure process. As noted previously with monitoring of cash assets and the revenue process, there were varying methods in which the authorities processed expenditures, primarily based on the financial activity of the authority.

In most all of the authorities, expenditures are made on only a periodic basis and 11 of the 13 authorities require two signatures on the checks. In 8 of the 13 authorities, no formal board approval, either prior or subsequent to payment, or listing of the expenditures is included in the minutes of the board meetings.

Many of the authorities did not maintain any basic accounting records to track the expenditures paid or payments made on behalf of the authorities. Many simply relied on the bank statements and confirmation of receipt (loan payments made on their behalf) from the Department of Transportation. Even those authorities that did maintain accounting records did not consistently record in the accounting records the payments made on their behalf sent directly to the State.

Our reviews revealed that 2 of the 13 authorities had paid stipends to their board members during the period reviewed. The stipend/meeting payments are a violation of SDCL 49-17A-10 which states: "A commissioner shall receive no compensation for his services but shall be reimbursed for the necessary expenses incurred in the discharge of his duties."

Our reviews also revealed that one of the authorities had made a single payment for legal services for the time period of June 2001 through April 2011. We were informed by the Registered Agent that no periodic payments were made during this ten year time period because the authority did not have sufficient funds. Deferring payment for services spanning a ten year period does not allow the regional railroad authority the ability to adequately monitor the financial position of the authority.

We also found that a payment for Consulting Services was for the time period of March 2011 through October 2012. When we inquired about the contract between the authority and this consulting firm we were informed no contract existed. We believe written contracts should be used for such services to allow the authority to define deliverables, requirements for supporting time incurred providing services and to specify the timing of payment for services rendered.

Related Recommendations:

9. We recommend that the regional railroad authorities establish some basic accounting records such as a General Ledger, Cash Receipts Journal and Cash Disbursements Journal to enhance monitoring of cash assets when financial activity warrants it.
10. We recommend that the regional railroad authorities record all expenditures in the accounting system whether cash or non-cash.
11. We recommend that the regional railroad authorities governing boards' review the practice of paying a per meeting amount to board members in order to ensure compliance with SDCL 49-17A-10.
12. We recommend that the regional railroad authorities pay bills in a timely manner.

13. We recommend that the regional railroad authorities obtain signed contracts for any outside consulting services.

Report of Revenues, Expenditures and Changes in Fund Cash Balance

We reviewed all of the regional railroad authority's accounting records, bank statements and financial related activity from the Department of Transportation. For each individual regional railroad authority we prepared a Combined Report of Revenues, Expenditures and Changes in Fund Cash Balance from January 1, 2011 through December 31, 2014 and a yearly Report of Revenues, Expenditures and Changes in Fund Cash Balance for each of the calendar years 2011, 2012, 2013 and 2014. We have also included a Schedule of Changes in Long-Term Debt from January 1, 2011 through December 31, 2014. These financial reports can be found in each individual regional railroad authority report.

Preparing an annual report similar to this each year and providing it to the regional railroad authority's governing board may be beneficial in keeping the board and its member governments informed of the financial activity of the authority.

Related Recommendation:

14. We recommend that the regional railroad authorities consider preparing an annual financial report.