

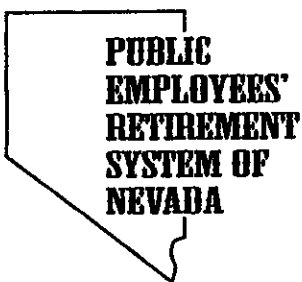
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**Budget Testimony**  
**Dana Bilyeu - Operations Officer**  
**March 19, 2003**

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Good morning. My name is Dana Bilyeu and I am the operations officer for the Public Employees' Retirements System. Our overall proposed budget for the coming biennium is trending downward from the base year due primarily to some capital expenditures that we removed from the base budget when building this 04/05 budget. If we removed the Information Technology portion of the budget there is a downward trend of approximately 3% from the base year. With IT in the budget our budget is decreasing by a little over 11% in each year of the biennium.

I will move briefly through each category of the budget and highlight if there are significant variations in our requests between years 04 and 05.

Moving first to m150—adjustments to base, one can see the removal of fairly substantial dollars due to the completion of our backfile imaging project in which we imaged approximately 120,000 files so that all staff has electronic access to files at their desktops. This includes our counselors in Las Vegas. Also removed from base were the contract dollars associated our web based enhancement to our underlying computer replacement project.

Included in Adjustments to base is longevity pay for staff, as well as minor adjustments to instate and out of state travel. Printing costs were adjusted to return PERS to the quarterly schedule for printing of member statements, which have been enhanced in the last biennium. PERS is going to RFP for our independent audit contract in fiscal 04. Currently PERS uses the national firm of PricewaterhouseCoopers as our independent auditor. They are about to complete a 5-year contract. We set the proposed budget for this contract after seeking in put from several nationally recognized firms as to appropriate contracting levels to insure that the firms can provide all the necessary services. That is the main reason for this contract request is going up.

PERS changed office locations and increased the staffing in our Las Vegas office, which is the additional cost for rent in the southern Nevada area.

One last item to highlight in adjustments to base includes the continuing technology consultant contract, as well as software and hardware maintenance. These services are invaluable to PERS given the relatively small size of our staff. There are firms provide that pension industry specific technology consulting services which keeps Nevada PERS abreast of every changing technology and trends in our industry.

Hardware and software maintenance includes ongoing system support provided by our technology vendor, Covansys. Since the project is complete, support contracts have now been transferred to PERS and are reflected in

adjustments to base. We continue our very successful partnership withCovansys, as we modify and adjust and enhance our computer system.

Moving to M200—maintenance—some minor upward adjustments due to caseload increases (which run historically at 3%).

E225—Incentives to operate efficiently. This decision unit includes costs for travel, registration and instructional materials to enable our staff to maintain proper and current knowledge in areas such as retirement administration, investment administration, software applications etc. These represent additions to our staff training budget. Education and continuing professional training for staff improves overall performance of the agency and keeps employee turnover to a minimum.

We also are enhancing our instate travel to provide additional payroll clerk and liaison officer training regarding contribution reporting. PERS has found the increasing time in the field at our member agencies provides a good resource to payroll clerks and liaison officers on wage and contribution reporting.

Moving to E275—appropriate staffing levels. PERS is requesting a new IT position. Currently the duties of a Data Base Management Specialist II (commonly referred to as a DBA are split between PERS IT staff andCovansys staff, with the most technical issues being address byCovansys.

The Manager of Info tech performs the first investigation of data issues. If the manager can resolve the data issue, the fix is performed by the manager, senior programmer or the senior technician, depending on the complexity of the problem and the availability of staff. Our external auditor has raised issues concerning the ability of our programmers and operations staff having access to the production database. Due to the small size of the staff, that sometimes is unavoidable. The DBA position will provide the separation of duties and the full expertise required in complex sequel queries and transaction processing as well as administration of the MSSQL Server product.

We are also requesting the addition of 2 grade 23, administrative assistant I positions. One of the positions will be used in the Carson City Office to handle imaging related duties, which have greatly increased now that all member files are imaged, and one position will be used as support staff for our Las Vegas Office. Because we have increased our counseling abilities in the south our telephone volume in that office has increase to between 3000 and 4000 phone calls each month. We currently rotate one of our counselors to the front desk for phone coverage as a way to staff the reception area, but they cannot counsel while in this public spot. The addition of a support staff to this office will allow all 4 counselors to perform private counseling services at any given time.

Moving to E300 technology improvements—

Maintenance on hardware and software to be newly installed or upgraded during 04 and 05, security costs for our interactive web site, communications for web site and Las Vegas office, hardware/software purchases required to remain current and costs to open a small satellite office for disaster recovery are included in this decision unit.

As PERS moves to our new interactive web site, the use of real time data for members and employers to conduct their business with PERS through this web site introduces a new level of risk to the PERS information Systems. The purpose of this contract is security assurance. The security assurance vendor will provide a fixed fee annualized service that uses and integrates an automated software model, database and professional analyst team to regularly map the information technology infrastructure against a proven set of essential security practices. PERS will be upgrading to more current versions of software applications used by the system, such as Microsoft Office, workflow software, and others. These upgrades are necessary, as the manufacturers will cease supporting the versions PERS uses during the upcoming biennium. Ongoing maintenance costs will also increase as they include installations costs associated with the upgrades as well. Hardware must also be upgraded as equipment reaches the end of its lifecycle.

Finally, just to highlight one last enhancement in this decision unit, we are seeking funding having to do with an alternative disaster recovery site located in Carson City. This minimal office would house current versions of our financial accounting system, imaging software, internal payroll and the production environments (including the communication line to Las Vegas). A more readily

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available disaster recovery site was recommended by our internal control audit, performed by an independent audit firm.

Moving to E 350, government services closest to the people—in the last biennium we created a communications initiative designed to coordinate all member communications, publications, etc. This budget reflects the reorganization of the funding sources for publications etc. and better identifies our efforts and enhancements in this area. We are budgeting for 22 more programs in the Las Vegas area, as well as 12 additional trips to the rural areas of Nevada. E500—accessible, flexible, cost efficient government—contains costs associated with the 5 year banking contract that will expire in June of 05. During '05, PERS will conduct an RFP process in keeping with statutory requirements. This process involves due diligence trips to participating banks. Also included in this decision unit are costs associated with fiduciary training/system governance services. One of the most fundamentally important issues facing retirement systems today has to do with system governance. Establishing clear roles and responsibilities for the board and management and creating and enhancing governance policies will effectively guide the conduct of the board. These services are not unlike an audit of current practices, as well as a process in which the best practices in the pension industry can be incorporated into our structure in Nevada in a comprehensive rather than piecemeal way.

Finally in this category are the costs associated with performance benchmarking. Cost effectiveness measurement against sister pension funds across the nation will provide PERS with invaluable data as to our service

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standards both as to timeliness and quality, best practices and areas needing improvement. This service relatively new to our industry but allow Nevada PERS to participate in a full cycle of services and be measured against peers on all aspects of our business. We see this as an invaluable tool.

Moving to E710—replacement equipment contains dollars associated with the replacement of our current telephone system.(\$50,000). We are at the capacity of our telephone system and after discussions with the state communications folks we set the cost of this replacement at the midrange on price and so you see the cost reflected here.

That concludes my remarks on our proposed budget. I would be happy to answer any questions.