MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON WAYS AND MEANS
AND THE
SENATE COMMITTEE ON FINANCE
JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT AND ACCOUNTABILITY

Seventy-Fifth Session
February 26, 2009

The Assembly Committee on Ways and Means and the Senate Committee on Finance, Joint Subcommittee on General Government and Accountability was called to order by Chair Mo Denis at 8:07 a.m. on Thursday, February 26, 2009, in Room 2134 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. Copies of the minutes, including the Agenda (Exhibit A), the Attendance Roster (Exhibit B), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at www.leg.state.nv.us/75th2009/committees/. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Assemblyman Mo Denis, Chair
Assemblywoman Kathy McClain, Vice Chair
Assemblyman Marcus Conklin
Assemblyman Pete Goicoechea
Assemblyman Joseph M. Hogan
Assemblywoman Ellen Koivisto

SENATE COMMITTEE MEMBERS PRESENT:

Senator Joyce Woodhouse
Senator Warren B. Hardy II
Senator Dean A. Rhoads

COMMITTEE MEMBERS ABSENT:

Senator Steven A. Horsford, Chair (excused)

STAFF MEMBERS PRESENT:

Mark Stevens, Assembly Fiscal Analyst
Brian Burke, Principal Deputy Fiscal Analyst
Joi Davis, Program Analyst
Rex Goodman, Program Analyst
Janice Wright, Committee Secretary
Vickie Kieffer, Committee Assistant

Chair Denis stated the Joint Subcommittee on General Government and Accountability would begin the hearing of the budget accounts for the Department of Administration. He was not sure how much time would be required to hear the budgets, so he would let the presenters testify as long as time allowed, then the Subcommittee would go straight to its questions.

DEPARTMENT OF ADMINISTRATION
INSURANCE AND LOSS PREVENTION (715-1352)
BUDGET PAGE ADMIN-29

Krista Leach, Acting Risk Manager, Risk Management Division, Department of Administration, testified she would present the budget. She introduced Maureen Martinez, Acting Deputy Risk Manager. Ms. Leach presented a handout (Exhibit C) which she reviewed with the Subcommittee. The Risk Management Division was part of the Department of Administration. She presented Budget Account (BA) 1352. The official name of the budget was Insurance and Loss Prevention.

Ms. Leach said the mission of the Division was to provide insurance, claims, safety, loss prevention, and risk management consultation services to state agencies and employees. The primary programs administered included:

- Workers' compensation including claims oversight and return to work program.
- Police, fire, and correctional officer heart and lung program.
- Statewide safety program including workplace violence prevention, fitness for duty, and indoor air quality.
- Property insurance and loss prevention.
- General loss prevention including liability and automobile risks.
- Miscellaneous insurance programs including fidelity, bonds, and excess liability.
- Claims processing of property and automobile physical damage.

Ms. Leach referred to the chart on page 5 of Exhibit C which detailed the four major areas of the Division. The bulk of the budget involved workers' compensation. The other three areas included miscellaneous insurance, automobile physical damage (comprehensive and collision), and property and contents. The chart displayed the projected costs and expenditures for fiscal year (FY) 2010.

Ms. Leach explained the brief overview of the main programs shown on page 6 of Exhibit C. The miscellaneous insurance section provided insurance policies and loss prevention related to aviation, fidelity (employee crime), and various other liability risks (including excess liability protecting the state's tort claim fund and miscellaneous bonds). The programs were funded through various premium and "pass-through" assessments.

Ms. Leach stated the Division provided automobile physical damage coverage (comprehensive/collision) for state-owned vehicles. The Division currently did not insure the Nevada System of Higher Education (NSHE) vehicles. With the inclusion of NSHE vehicles beginning in fiscal year (FY) 2010, the total number of covered vehicles would be approximately 4,100 units. The program was 100 percent self-funded through premiums assessed per vehicle, insurance recoveries, and deductibles charged to the state agencies.

Ms. Leach explained the property and contents program insured scheduled property and contents for physical damage or loss. Coverage was provided to all state agencies with the exception of NSHE. The scheduled buildings and other property included: approximately 1,700 state-owned buildings and structures, which totaled over 8.4 million square feet; approximately 1,200 leased buildings, which totaled over 3.2 million square feet; and over 1,550 pieces of contractor's heavy equipment.

Ms. Leach stated the workers' compensation program provided statutory coverage and loss-prevention activities related to occupational injuries and diseases. The program included all agencies with the exception of the Public Employees Retirement System (PERS) and NSHE. The program provided coverage to approximately 20,000 employees. The program included the administration of the police, fire, and correctional officer heart and lung program as well as various safety programs. She said the Division had a high deductible of $1.5 million for the policy. Claims were administered by a third-party administrator. The third-party administrator had a dedicated office located next door to the Division's office. The Division had daily and open communication regarding claims with the third-party administrator. The Division worked with the third-party administrator and staffed all lost-time claims monthly.

Ms. Leach reviewed the organizational chart on page 7 of Exhibit C. The Division had a very small staff with tremendous responsibilities for the state. Many of the Division programs were conducted through private contracts, which were closely monitored and supervised.

Ms. Leach explained the budget summary shown on page 8 of Exhibit C. The Division's revenue came from various internal pooled rate assessments to all participating agencies and additional insurance recoveries. She explained the Division's rate table. The workers' compensation program was always calculated on a calendar year basis. So the rate reflected on the chart was calculated on a calendar year basis, while everything else was on a fiscal year basis. All of the Division's rates decreased or were flat, with the exception of workers' compensation, which increased slightly because of a reduction in work force. The Division's fleet collision rate decreased because of the inclusion of the NSHE-owned and operated vehicles in FY 2010.

Ms. Leach said the Division only had one budget Enhancement (E) 710, which replaced computer hardware and associated software, in accordance with the Department of Information Technology's (DoIT) replacement schedule. Additionally, the agency budget included the Governor's recommendations regarding salaries and benefits in the statewide E670 series enhancements.

Ms. Leach explained the three Maintenance (M) 150 units, for insurance premiums, auto comprehensive, and workers' compensation. The Division had significantly decreased its reserves to facilitate rate reductions wherever possible.

Assemblywoman McClain asked about the workers' compensation rates. She asked Ms. Leach to discuss why the rates were changing and how she felt about using reserves because it would result in low reserves for the Division at the end of the biennium. She also asked whether the Division ever considered increasing the maximum salary cap instead of increasing the rates. The $36,000 maximum salary cap amount was quite low.

Ms. Leach responded to the salary cap issue. The premium charged to the Division by the insurance carrier was capped at $36,000. If the Division were to raise the salary cap, then the Division would pay an additional premium. It would not be a benefit for the state. She deferred the rate question to the budget staff because the workers' compensation rates were determined by the Budget Division.

Assemblywoman McClain said the agency would be using some of its reserve balance to cover the increases to the workers' compensation rates. The

Division needed $3 million in reserves, but it would be down to only $2.2 million. Assemblywoman McClain asked what the agency plan was.

Ms. Leach answered the Division originally requested $3 million in reserves for both years. The Division ended up with about $4 million in FY 2010 and $2 million in FY 2011 in The Executive Budget. The Division would balance forward some funds which would go to the reserves. She agreed it was a little troubling. Andrew Clinger, Director, Department of Administration, said it was always an attempt to balance the rate versus the reserves. In trying to strike the balance, the Budget Division set the reserves at a level at which it felt comfortable.

Assemblywoman McClain wanted further explanation of why the insurance carrier set a cap on the insurance premium. Why would it be so low? It meant the Division did not pay premiums for any employee making more than $36,000 in salary. Ms. Leach replied the cap was set in the *Nevada Revised Statutes*. Not all states had a payroll cap. The cap meant Nevada had the benefit of paying lower premiums to its carrier.

Ms. Leach provided an historical overview of the paid auto claims. The claims stayed fairly flat but did increase very slightly. Ms. Leach was unsure of the effect of the inclusion of the NSHE-owned vehicles beginning in FY 2010. Ms. Leach anticipated an increase in the number of claims to be processed would affect the workload of the agency. The Division would charge NSHE a premium and assessment for the claims handling.

Ms. Leach presented an overview of the paid property claims. At the time the budget for the 2009-2011 biennium was developed, she did not believe it necessary to include any maintenance units because the Division had a significant reduction in claims frequency and costs from FY 2007 to FY 2008. Since then, the Division had experienced four large contractor claims with an estimated cost of $300,000 for those claims. Those claims would decrease the funds available to carry forward into the next biennium.

Ms. Leach provided an overview of the workers' compensation claims totals each year going back to FY 2003 (page 12 of Exhibit C). The Division's workers' compensation policy was based on a calendar year. The Subcommittee could see the last year listed was 2007. Calendar year 2008 was still too new and claims had not had a chance to develop. Generally the Division completed its analysis in May of each year. She said the Division had approximately 1,400 claims filed for calendar year 2008. The incurred costs were currently projected to be $12.6 million, which included paid claims plus reserves. Again, the costs would impact on the funds available to carry forward. Unfortunately, the Division had some large claims this year.

Ms. Leach said page 13 of Exhibit C provided an overview of the Division's performance indicators. The first performance indicator was the number of safety and loss prevention classes and number of attendees. As noted in calendar year 2007, the performance indicator included the inception of the mandatory defensive driving training for most employees. That inclusion caused the increase noted on the list on page 13. The Division had increased its projections for the next biennium for several reasons. The defensive driving training must be renewed every four years. Also, the Division made a concerted effort to offer more training in critical areas especially with respect to workers' compensation, safety, workplace violence, and fitness for duty.

Chair Denis asked about the defensive driving courses. How had the training worked out? Was it required for everyone? Was the training completed? Had the Division seen any improvement? Ms. Leach replied yes, the training had been completed. The Division tracked all rental vehicles through the state Motor Pool. The Division called any employee who had not taken a mandatory defensive driving class. She deferred to Maureen Martinez to discuss the effects of the training.

Maureen Martinez said basically that when she saw a loss, she checked with the driver to see whether the driver had taken the class. If the driver had not, the Division made sure the employee took the class. For the most part, the mandatory training had helped keep the state's losses stable. The Division also audited the defensive driving class on the claims side as well. The Division tried to capture the effect of the training on both sides. But obviously, as new employees were hired, the Division had to ensure those employees took the training. That was why classes were being offered. She thought there was an ongoing need for the training classes.

Chair Denis said he took the mandatory driving class, and he thought it was very helpful. It made him a better driver overall. He wondered whether the Division had seen some savings because of the training and improved safety issues.

Ms. Leach responded by discussing performance indicators number 2 and number 3. Number 2 was the percent of workers' compensation claims per 100 insured full-time equivalent (FTE) positions. The performance indicator was projected at 10 percent. For calendar year 2007, the Division's actual performance was 6.15 percent. Performance indicator number 3 was the percent of workers' compensation claims which involved lost time. The Division had a little work to complete there. Number 3 replaced a previous indictor which was not quite as meaningful.

Ms. Leach said performance indicator number 4 showed the number of workers' compensation claims reviewed for subsequent injury fund recoveries. The workers' compensation third-party administrator contracted with a dedicated subsequent injury specialist who reviewed all the lost time claims for possible submission to the fund. The Division took full advantage of the program and had done extremely well. Results for calendar year 2008 were even more impressive. The Division collected almost $750,000. In calendar year 2009 to date, the Division had collected over $200,000. These recoveries were vitally important to the Division. The third-party administrator also actively worked subrogation recoveries for workers' compensation claims in which someone else was responsible for the accident and had the liability. The Division received about $250,000 to $350,000 annually for subrogation recoveries. Those recoveries were not included in the performance indicator chart.

Ms. Leach testified performance indicator number 5 involved the heart-lung program. It was the percent of police, firefighters, or correctional officers who received a letter of corrective action. The employees were required to have annual physicals. The Division still had some work to do to motivate employees covered under this program. The employees needed to correct those predisposing risk factors. The 44 percent of employees who received a letter of correction in calendar year 2007 represented a higher percent than the Division wanted.

Ms. Leach explained performance indicator number 6 was a new indicator of the percent of high-risk police, firefighter, or correctional officers that demonstrated improvement in the heart-lung program. Currently the data was based on a limited study done by an intern at the University of Nevada, Reno (UNR) on the proposed target of 33 percent. The 33 percent was truly just a best guess. The Division now tracked the information from all physicals conducted. In the future, the measurement would be based on a much larger population. Then the Division would get a better idea of what the realistic target should be.

Ms. Leach said, going back to performance indicator number 5, the Division hoped to see improvement with the advent of the new tobacco policy. The zero tolerance tobacco policy in the prisons beginning in July 2009 would result in improvement in this indicator. The Division met with the smoking cessation coordinator from the Health Division to see what programs could be offered to the correctional officers.

Chair Denis asked for an update on legislation that would affect the Division on the heart-lung program. Ms. Leach said currently Senate Bill 6 dealt with the volunteer firefighters and would affect the Division. Assembly Bill 214, introduced yesterday, would bring the state park rangers and some Department of Public Safety employees into the heart-lung program. Those bills had a large effect on the Division. She was not sure there were any other bills that would affect the Division. The agency tracked all bill draft requests (BDRs) as they became bills.

Assemblyman Conklin said something was just not making sense to him on performance indicators number 5 and 6. Maybe this was not a direct question, but he asked for Ms. Leach to follow his logic on this. The Division showed 44 percent of the people in the heart and lung program received a letter of correction. Those people needed to change some behavior. The behavior affected their ability to get into the heart and lung program because they fell into a specific category. The Division projected the number of persons receiving a letter of correction would go down. The decrease was a good thing.

Assemblyman Conklin said the Division projected the percentage of people who needed some correction in the next performance indicator. Less than half of those people demonstrated improvement. The Division expected that number to go down. It did not logically make a lot of sense. One would expect logically the number to go up. If one had a certain number of people demonstrating improvement, the Division should try to improve the number, not decrease the number. And if the number of employees demonstrating improvement decreased, how could one expect the number of employees receiving letters of correction cited above to decrease. The numbers should be moving in opposite directions.

Ms. Leach answered the performance indicator was based on a very small study. She did not know what the target should be realistically. She hoped Assemblyman Conklin was correct. Assemblyman Conklin said if he was not correct, it defied logic. Ms. Leach said it was not always possible to get the employees to complete the corrective actions indicated. Assemblyman Conklin clarified the only thing he was saying, if the employee did not complete the action, then the above number should be higher. The numbers should be moving in opposite directions. To successfully meet one standard, meant the other standard had to decrease.

Ms. Leach said she did not have good underlying data for performance indicator number 6. It was a new performance indicator. Mr. Clinger clarified performance indicator number 5 showed the total population versus performance indicator number 6, which showed a subset of the total population. But he agreed the numbers should be moving in opposite directions.

Ms. Leach said the last performance indicator was not printed in the budget. It dealt with the repair costs for automobile property damage per insured vehicle. The average repair cost was $100 per vehicle. Chair Denis asked what it took to repair a vehicle. What was the average repair expense? Ms. Leach stated the Division currently averaged a little less than $100.

Assemblyman Hogan mentioned he believed the Division anticipated some management changes at the top of the organization in the very near future. He wondered where the Division was in that process. How quickly would the persons be selected? Where would the Division find such talented people on such short notice? Mr. Clinger answered he was in the process of filling the positions. He had an open recruitment. The recruitment had been open for awhile. He actually had a good pool of candidates and should fill the positions within the next few weeks.

DEPARTMENT OF ADMINISTRATION
BUDGET AND PLANNING (101-1340)
BUDGET PAGE ADMIN-1

Andrew Clinger, Director, Department of Administration, testified he also served as Chief of the Budget Division. He presented the Budget Division budget. [He went through The Executive Budget document and did not provide any additional handouts for the Subcommittee.] There were several enhancements in the budget he highlighted for the Subcommittee. The decision unit Maintenance (M) 160 eliminated a vacant public service intern position. The typical issues in decision units Enhancement (E) 670, E671, E672, and E673 were statewide in all budget accounts so there was no need to discuss those.

Mr. Clinger explained decision unit E710 recommended replacement of five computers per year. This was typical and in accordance with the Department of Information Technology's (DoIT) five-year replacement schedules. The E901 decision unit transferred the computer full-server hosting costs from the Department of Administration's Information Technology Division's budget account (BA) 1320 to BA 1340. The transfer moved the costs from the Information Technology Division to the Budget and Planning Division. This transfer allowed the Budget and Planning Division to "cost-allocate" the costs out to other divisions within the Department. Mr. Clinger said he had covered all the enhancements he needed to highlight for the Subcommittee. He would answer any questions.

Chair Denis asked Mr. Clinger to speak about the cost allocation. He wanted information about the revisions to the Director's Office cost-allocation plan and how it affected those agencies which contributed to the cost-allocation pool. He also wondered about the effect the revisions had on the state General Fund.

Mr. Clinger testified he revised the Department's cost-allocation plan to essentially split the Department into three different groups. One group was the Director's Office cost-allocation pool. That group was only allocated to the divisions within the Department which received services of the Director's Office and included the director's salary, the director's assistant's salary, and some small operating and training costs. The Department also had the personnel services group of the cost-allocation pool. That group included the personnel section within the budget and allocated costs not only to the divisions within the Department, but also the Governor's Office, the Office for Consumer Health Assistance, the Office of Energy, and various other outside entities. The personnel group provided services to those agencies so the cost-allocation pool included those agencies.

Mr. Clinger said the final group was the information technology cost-allocation group. That group allocated the information technology positions as well as the full-server hosting costs he just discussed. Those costs were transferred to the Budget and Planning Division from the Information Technology Division. Now those costs were allocated to all the divisions within the department. The costs were also allocated to the Governor's Office and the Governor's mansion because the group provided information technology services to those agencies. As far as the General Fund impact for the revised cost allocation, Mr. Clinger would need to get back to the Subcommittee with the information. He did not have the dollar change in front of him, but it should be a minimal amount.

Chair Denis said if a follow-up budget amendment was needed, it should be in process. Mr. Clinger said there was no amendment he was aware of on the cost allocation.

DEPARTMENT OF ADMINISTRATION
INFORMATION TECHNOLOGY DIVISION (101-1320)
BUDGET PAGE ADMIN-20

Dave McTeer, Chief, Information Technology Division, Department of Administration, testified he would be brief and followed The Executive Budget book. The budget account (BA) 1320 was shown on page Admin-20 of Volume I of The Executive Budget. The program description was listed there. There were a couple of additional programs not included in the program description which Mr. McTeer discussed. The Division provided information technology expertise to various state agencies and divisions within the Department of Administration. The Division was responsible for operational oversight of the integrated financial system (IFS), Nevada Executive Budget System (NEBS), the enterprise electronic payments system, the Nevada Project Accounting System (NPAS), and the Nevada Open Government Initiative. These last two were inadvertently omitted from the program description statement on page 20 of The Executive Budget.

Mr. McTeer said the Department of Administration was in the process of preparing a budget amendment to facilitate the transition of system support duties from a master services agreement (MSA) contract programmer to a Department of Information Technology (DoIT) programmer. When Mr. McTeer prepared the agency request budget for this budget account, he planned to request this MSA transition in the 2011-2013 biennium. He planned to follow this strategy during the Governor Recommend phase of the budget. However, it was recently brought to his attention it would be in the long-term best interest of the state to accelerate this transition to realize the cost savings sooner. This budget amendment was estimated to cost less than $10,000 over the biennium. In the following biennia, the transition would result in considerable savings to the state, approximately $100,000 to $120,000, assuming DoIT programmer rates remained relatively constant. The budget amendment would be transmitted to the Legislature next week.

Mr. McTeer explained the significant decision units in this budget account included Maintenance (M) 160 on The Executive Budget Admin page 21. This request eliminated an information technology manager position. The Enhancement (E) 607 decision unit eliminated an administrative assistant position on Admin page 22. He concluded the highlights he had for the Subcommittee and took questions from the Subcommittee.

Chair Denis asked Mr. McTeer to talk about the projects approved by the last Legislature. He wanted to know the status of those projects. Would those projects all be completed by the end of this fiscal year? Mr. McTeer responded yes, the information he had indicated all the projects in BA 1325 would be completed by the end of the fiscal year. Chair Denis asked whether there was any indication the Division might run into any problems. Mr. McTeer answered no, those projects would be completed on time.

Mr. McTeer stated the one project not in BA 1325 (but perhaps part of the Chair Denis' question) was the IFS server project. The project was basically on track with one exception. The one exception was the payroll system for IFS Human Resources (HR). He provided quarterly status reports to the Interim Finance Committee (IFC) during the current biennium. At this time, it appeared a majority of the 35 environments from four agencies would be migrated to the new servers by June 2009.

Mr. McTeer explained the Division likely would not have the Advantage HR system migrated until after June 30, 2009, but prior to December 31, 2009. This was primarily because of budget cuts experienced by DoIT. The delay increased because of the unplanned but highly desirable consolidation of the Nevada Department of Transportation (NDOT) and Central Payroll cycles, which was still in progress. This delay would result in realizing less than $10,000 of the total projected savings in system maintenance. The cost could be absorbed by the agencies. So the project team had the consolidation of these two payroll cycles assigned to them unexpectedly. The consolidation was definitely the right thing to do. However, the team had not planned on the consolidation when it presented the plan to complete the server migration to the Legislature two years ago. The payroll consolidation created problems for the team's timing scheme. As the IFS project manager eight years ago, Mr. McTeer tried to get this same consolidation approved. He could not get approval at that point. It was just unfortunate the consolidation would cause a delay getting the HR system out onto the new servers.

Chair Denis noted that Mr. McTeer was the only employee in the Division. He asked whether it made sense to consolidate the Information Technology Division into the Division of Budget and Planning since only one position was recommended to remain in the Division and it was already colocated with the Division of Budget and Planning. Chair Denis asked Mr. McTeer to talk about possible consolidation.

Mr. McTeer responded that he and Mr. Clinger talked about the consolidation at some length multiple times during the budget process. They came to the conclusion not to pursue the consolidation. They decided the costs should remain in BA 1320 because Mr. McTeer was still responsible for the support costs in this budget account. Those support costs were primarily for the systems mentioned at the beginning of his presentation. It made sense to separate those costs and keep those in BA 1320. That was the determination of Mr. McTeer and Mr. Clinger at the time.

DEPARTMENT OF ADMINISTRATION
INFORMATION TECHNOLOGY PROJECTS (101-1325)
BUDGET PAGE ADMIN-26

Dave McTeer, Chief, Information Technology Division, said Budget Account (BA) 1325 was one of the responsibilities of the Information Technology Division. This was a budget account which contained the significant information technology projects. Generally, the rule in the past, and what was being proposed again, was any information technology project with costs in excess of $100,000 which had a General Fund component, was placed in this budget account for additional oversight. He told the Subcommittee the Division had a good track record over the last three bienniums. The Division had no single project which exceeded its budget. The Division had 30 or 40 projects in the last biennium and not a single one had exceeded its budget. He was proud of that fact. That was why he proposed two large information technology projects for this budget account. The Information Technology Projects budget began on The Executive Budget Admin page 26 and listed the existing projects. On page 27 were two decision units, Enhancement (E) 588 for the Division of Health Care Financing and Policy (DHCFP) Medicaid Management Information System (MMIS) and E589 for the Division of Welfare and Supportive Services (DWSS) project.

Mr. McTeer introduced Charles Duarte, Administrator of the DHCFP, and Romaine Gilliland, Administrator of the DWSS. Mr. McTeer said the decision unit E588 request represented the procurement of a takeover vendor and transfer of the existing MMIS. The DHCFP was notified in June 2008, by the current vendor First Health Services Corporation (FHSC), it would exit the fiscal agent and health care markets. Full MMIS procurement included hosting, fiscal agent services, and taking over the complete MMIS tool set. This was a companion decision unit to the DHCFP's decision unit E277 in BA 3158, which included staffing and support functions of this transfer.

Chair Denis asked Mr. Duarte to talk about the issue of procuring a new takeover vendor. The DHCFP had been notified the FHSC was getting out of the MMIS business. Nevada was the only client of FHSC in the MMIS market.

Charles Duarte, Administrator, Division of Health Care Financing and Policy, testified yes, the FHSC was not currently out of the business as yet but planned to exit the market. The FHSC intended to maintain contract services through the term of its contract, which ended September 2012 or through the takeover process the DHCFP proposed. Chair Denis asked whether the FHSC would provide services until whichever came later. Mr. Duarte said yes, Nevada was the last MMIS account for the FHSC, and the FHSC would provide services through the contract date or the takeover vendor date, whichever came later.

Chair Denis asked what type of risks Nevada took to switch to a new system. Mr. Duarte explained Medicaid balanced the risks of staying with the current vendor versus the risks of pursuing a takeover transfer. Mr. Duarte thought the risks of staying with the current vendor, both in terms of service levels and financial risks were far more substantial than the risks of embarking on a takeover. When he looked at a takeover project and assessed why he might want to proceed in that direction, he looked first at reductions in service levels, which the DHCFP had already experienced. Mr. Duarte had seen a significant turnover in experienced programming personnel at FHSC, which was based in Virginia. Second, in the last contract negotiation with FHSC, Mr. Duarte saw significant escalation in the cost of the operations contract for fiscal agent services. As the DHCFP neared the end of its contract term and continued on the track of another renegotiation, the DHCFP would see a further escalation in the costs to the state. A third component of significant risk was the FHSC was owned by a very large parent company. At any time the parent company could make a fiscal decision to exit the MMIS business with six months notice and could terminate its contract with Medicaid. Mr. Duarte did not think exiting the MMIS business was FHSC's intent. But those were the risks Mr. Duarte assessed.

Chair Denis asked whether the DHCFP was basically going to have the same type of system when the takeover was done. Mr. Duarte said yes, in essence. What Mr. Duarte tried to do was create a stable environment from which the DHCFP could launch into new systems development. So what he wanted was to hand over the current MMIS and tool sets to a new vendor for a period of approximately five years. Over that five-year period, the vendor would create a stable environment for the DHCFP to proceed with implementation in a step-wise planned manner for new technologies which were consistent with the overall state direction for service-oriented architecture (SOA).

Chair Denis asked when the DHCFP first installed the current MMIS, whether it had problems with reimbursement issues, and whether the DHCFP would have the same problems if the transfer was completed. Mr. Duarte said he could not promise there would not be any problems. His intent was to run parallel systems to create a duplicate environment for the new MMIS with the new vendor. He planned to test it thoroughly before he cut over from the old system to the duplicate in the new service environment. He hoped to minimize any problems with payments through that type of process and with adequate testing.

Chair Denis asked how would the DHCFP switch to a new system. Would the DHCFP develop its own system or would it use something which was already being used somewhere else. What was the intent? Mr. Duarte answered what he planned to do was to move into a proven environment. The new vendor may offer similar tools, for example pharmacy claims processing, or other types of data reporting systems that might perform the same basic functions but consist of different applications. So the type of new system would depend on the vendor selected and the menu of tools offered as a replacement.

Chair Denis said the intent was to be able to port over the current data into a new system after determining the system would work. Mr. Duarte said yes, that was the plan. Chair Denis asked whether the DHCFP would have any problem complying with the federal Medicaid Information Technology Architecture (MITA) initiatives. Mr. Duarte answered this was the roadmap to MITA-compliance. By creating a stable environment with the new vendor, Mr. Duarte hoped to begin replacing discrete pieces of the system with MITA-compliant software.

Chair Denis asked what it would cost. Mr. Duarte responded he tried to keep the transfer as budget-neutral as possible for the future. The projected operating costs would not increase except for caseload and inflation. The cost of this procurement was estimated at $575,000 in General Funds. The total cost was about $2 million. The project was primarily funded by federal dollars, with a 75 percent federal to 25 percent state match rate.

Chair Denis asked whether there were things in the current system the DHCFP would not do when it switched over. Did Mr. Duarte want to upgrade the system in this process? Mr. Duarte replied yes, his hope was to improve some of the fiscal and accounting processes when it switched over. There were currently some gaps in the system. The gaps made it very challenging to reconcile with IFS and some of the federal reporting systems. He also hoped to get a better handle on some of the pharmacy data developed as a result of clinical reviews done by FHSC. So the goal was to combine medical claims with pharmacy claims and clinical review information into one data set.

Chair Denis asked when Mr. Duarte intended to complete the procurement contract and what the project timeframe was. Mr. Duarte said right now he had a request for proposal (RFP) on the street to procure a vendor to assist the DHCFP with the development of the RFP for the takeover vendor. The vendor to develop the RFP would not be hired unless the takeover proposal was funded and approved by the Legislature. But the first RFP had been released. Upon approval, the DHCFP would develop the takeover vendor RFP, release it, and procure the vendor in FY 2010. In FY 2011, the DHCFP would begin the process of design, development, and implementation for this takeover and transfer and stabilize the system by the latter part of FY 2011.

Chair Denis asked whether Mr. Duarte was doing the planning in FY 2011, then would he come back to the next session of the Legislature for money. Mr. Duarte said no, he would complete the implementation by the end of the next biennium. Chair Denis asked when he would be asking for the money. Mr. Duarte answered that he planned on using the current line-item costs for ongoing operations plus the increase for caseload and inflation to sustain the operations of the new takeover system.

Chair Denis asked would there be any problems with any proprietary issues of the existing software of the DHCFP. Would it cause a problem with the switchover? Mr. Duarte said he had not completed the assessment of the proprietary issues at this point in time. He said the DHCFP owned the code for the MMIS software. The ownership resulted from using public dollars to procure and develop the MMIS which the DHCFP currently used. But he was not sure whether there were certain aspects of it, for example pieces of operating software which were necessary but proprietary, that needed to be purchased by the takeover vendor. Mr. Duarte said he must depend on his information technology staff to assess those needs. Chair Denis asked whether the FHSC had identified any proprietary issues that could be a problem and must be addressed. Mr. Duarte replied no, there was no such indication from the FHSC.

Chair Denis wanted to discuss the DWSS project and asked about the benefits part of the system. He wondered whether the recommended system would have the ability to track the number of applications. Mr. McTeer stated the second project was decision unit E589. This request provided an alternative solution to the caseload decision unit M205 in DWSS BA 3228. The decision unit would increase employee efficiency by an additional 20 percent and improve client services through an incremental and dedicated technology initiative. Operational efficiency and cost avoidance resulted in savings of $15 million or $16 million per year after full implementation. This request was a companion to E277 in BA 3228 which contained nine information technology positions.

Mr. McTeer introduced Romaine Gilliland, Administrator of DWSS. Chair Denis asked whether Mr. Gilliland had any comments on E589. Mr. Gilliland said he wanted to develop a web-based interactive benefit application and self-service module. He noted Senate Bill (S.B.) 4 was being considered for an electronic application for Medicaid and Nevada Check Up. He looked to this technology investment to provide the funding to meet both the needs as described as well as the electronic application in S.B. 4. He also looked to implement a document imaging system to digitally scan documents and electronically route them for processing. He looked to provide a common presentation and retrieval overlay to take the existing operating systems, which were in an older environment characterized as a green-screen environment, and have them operate in the background in a more "Windows-like" environment. He looked to flatten security to allow statewide access and processing of regional activities.

Mr. Gilliland stated this project would allow an application submitted in southern Nevada to be processed by an eligibility worker anywhere in the state, depending on the workload within any given area. This also would allow the utilization of Family Resource Centers (FRC) to better connect households with the DWSS-administered programs. A person might go to a FRC, but might be better off using one of the other DWSS programs or another program. This project would allow those people to be best routed to the most appropriate program. He was not looking for the FRC to be performing the eligibility process but to help people in preparing applications.

Chair Denis said there was an estimated $2 million per year in savings in this project. He asked whether the DWSS would have the ability to track the number of applications so the Subcommittee could see whether the DWSS realized those projected savings. For this request, Mr. Gilliland said he projected a 20 percent improvement in efficiency in the field services offices. That equated to approximately $15 million savings per year.

In response to the question on being able to track applications, Mr. Gilliland said yes, he would be able to do so. One of the important things to note was that, typically, less than 50 percent of the eligibility applications received was approved. The reason eligibility applications were not approved was possibly the person who submitted the application did not meet the eligibility requirements. As an applicant went through the electronic application process, it would ask key questions to determine whether or not this was the right program for that individual. The electronic application process would also help an individual provide all the required documentation when the person submitted the application for eligibility review. What Mr. Gilliland anticipated was the percentage of approved applications would increase to about 60 percent of submitted applications as compared to the less than 50 percent approval rate today.

Chair Denis said as he understood the project, the DWSS would not change out the system, but would just change the user interface and make it easier for people to use. Mr. Gilliland said yes, that was correct. Chair Denis asked whether the interface was how the DWSS would get the efficiencies. Mr. Gilliland answered yes. For example, the Nevada Operations Multi-Automated Data Systems (NOMADS) or the Online Automation Self-Sufficiency Information System (OASIS) systems would continue to operate in the background. But the eligibility worker would have an improved interface which allowed an exchange of data between the two systems. The interface would allow access to those two systems more readily. If one put data into a NOMADS system, then that data would also populate the OASIS system.

Chair Denis asked whether the DWSS was now inputting all this data into each separate system and would this one interface connect all three of those.

Mr. Gilliland answered, yes. Currently staff must bring one system up on one screen. Then when staff had completed working with that one, staff had to bring a second operating system up on the screen. Staff then maybe had to bring a third operating system up on the screen. Having this new interface retrieval overlay would allow all three of the systems to be in separate windows on the screen simultaneously. Staff would be able to toggle back and forth more readily between the systems in the background. Another advantage of the electronic application was for the client. When the client completed the application and put in the information, the staff would not need to populate the system with the client's information. The electronic application interface would automatically populate the corresponding NOMADS or OASIS system.

Chair Denis asked whether the DWSS had received any notification of impending penalties or sanctions related to program service which involved this technology investment request (TIR). Mr. Gilliland answered, no, he had not received notification of penalties yet. He anticipated receiving notification of failure to meet the work participation rate for two-parent families. The DWSS failed to meet that rate based on the calculations within the last two years. His concern was the failure may extend to the all-family rate, as the DWSS went forward. Today, for example, if one looked at the two-family rate, which the DWSS had not met based on its own information, the DWSS could be subject to penalties of approximately $100,000 to $200,000. If the DWSS failed the all-family rate (which was the 50 percent work participation rate), then the DWSS could be subject to penalties in the first year of approximately $2.2 million, (5 percent of the block grant) increasing to 7 percent in the second year. One of the things the DWSS hoped to do through this initiative was to demonstrate corrective action was in place when it received notification of those penalties. So then the DWSS would ask for a delay or deferral, demonstrate the corrective action, and then, hopefully, avoid the penalties.

Chair Denis asked whether the DWSS had any recent penalties or sanctions. Did DWSS think anything would be imposed on it before the interface was developed to correct the deficiencies? Mr. Gilliland responded yes. He believed the two-family rate penalty he mentioned for federal fiscal year 2006 and federal fiscal year 2007 would be imposed. The DWSS would be notified of failure to meet those requirements. He believed at some point he would be notified of the potential penalty. He believed the DWSS would be given a sanction period. While it was speculative, he hoped the DWSS would have either some elements or all of the elements of this correction implemented during the sanction period and avoid the penalty.

Chair Denis asked for information about the workforce reduction and the efficiencies the DWSS would save because of the project. How many full-time-equivalents (FTEs) would the DWSS be able to reduce because of the efficiencies of the project? Mr. Gilliland answered he had an M200 decision unit he would present next week. If the M200 decision unit was approved, and if one looked at the FTEs the DWSS would have in place in FY 2011, the DWSS would reduce approximately 271 staff of the 1,355 it requested. The 271 staff equated to approximately $15.1 million to $15.2 million per year.

Chair Denis asked whether some of the FTEs would be recommended in the field services budget and not be added in the FY 2010 and FY 2011 budget. Mr. Gilliland responded no, he would be recommending the FTEs be added in the FY 2010 and FY 2011 budget. He suggested the FTEs be added as intermittent positions so the DWSS could implement various elements in this technology initiative. The DWSS would also be able to reduce its staff without layoffs as technology elements were put in place. But the DWSS would not be reducing its request for staff in FY 2010 and FY 2011 as a result of this request.

Assemblywoman McClain said she was a little concerned about utilizing FRCs and maybe this was something Mr. Duarte would like to address. The FRC staff was not really trained as eligibility workers. So how involved was this new program? How would it really help by putting the electronic application in FRCs? The FRC staff did not have eligibility criteria on their brains. And also the equipment in the FRCs was not really very up-to-date, at least not the ones she had seen.

Mr. Gilliland replied he was not asking the FRC staff to perform eligibility decisions. What he asked the FRCs to do was assist with the completion of applications. Assemblywoman McClain said that was her point, noting that this system had some automatic eligibility criteria built-in. Mr. Gilliland said yes, it did. Assemblywoman McClain said the FRCs could put in the application and the system would say, oops, the person did not qualify for Temporary Assistance to Needy Families (TANF), but the person may qualify for something else. It was going to be automatic.

Mr. Gilliland said yes, it would be automatic. One might not qualify for TANF, but one might qualify for another program. But it would only address the programs the DWSS administered. So the programs would either be TANF-related, food stamp-related, or Medicaid-related.

Assemblywoman McClain asked whether there would be an interface to counties, because a person may not qualify for state aid but may qualify for county aid. Mr. Gilliland replied the electronic application would not have an interface with the counties. If someone was at the FRC and the FRC staff assisted the person with the input of the information into the application and the FRC staff realized the person may not qualify, then the FRC staff may direct the person to another place such as the county.

Assemblywoman McClain said that was her point, and asked why the DWSS was not going in the direction to cooperate with local agencies rather than leaving it up to a clerk in an FRC to suggest an applicant contact Clark County when that clerk might not know what to do.

Mr. Gilliland said he was just using the FRC as an example of a place where a person might be able to electronically complete an application. One of the concerns which had been expressed was whether or not this particular population would even have access to the necessary equipment to complete an electronic application. Purdue University recently completed a study to determine the likelihood of someone being able to use an electronic application. Purdue determined that 40 percent of the people in the study eligible for welfare would in fact use some form of electronic application and had access to the necessary equipment. The FRC would be one of those locations which would provide access to the necessary equipment. In addition, of those 40 percent in the study, 24 percent of that population actually had the computer equipment to perform the electronic application. So he used the FRCs as one example of where those people could go to utilize the electronic application.

Assemblywoman McClain said that was her point too. There were lots of different places where one could access electronic applications. One could go to the Aging and Disability Resource Centers (ADRC), or one could go to the county social service offices if those offices had some sort of access to it.

Assemblywoman McClain was saying the DWSS was just building another place to store services like a silo. The DWSS needed to cooperate with many different agencies. People who needed help were out there everywhere. There was help in southern Nevada. There were all kinds of places where people could receive help with an electronic application.

Mr. Duarte stated Mr. Gilliland made a key statement, which was that the FRC was an example of an agency which could be used. Assemblywoman McClain said she appreciated that. Mr. Duarte said there were other agencies out there that had the capability, could be a trusted business partner, and could assist in the completion of electronic applications properly. For example, he had a long-standing relationship with disproportionate share hospitals (DSHs) regarding assistance with eligibility and applications. There were some federal requirements for assistance with applications through federally qualified health centers and tribal health centers as well. The FRC was an example as Mr. Gilliland said. Mr. Duarte knew from the discussions associated with S. B. 4, there were other organizations intended by the bill, which would be able to use this technology to assist those clients as well.

Assemblywoman McClain said that was great, and she just wanted the DHCFP and the DWSS on the record saying it was something the agencies were looking at. The agencies must include this issue in this project and not build another silo like NOMADS. Mr. Gilliland responded he very much appreciated Assemblywoman McClain's comment because it was absolutely not his intention to build another silo. His intention was to have an electronic application easily accessible anywhere a person had access to a computer. His intention was to work with every organization to guide people to the DWSS to help facilitate accessibility to its programs. Assemblywoman McClain said, along those same lines, the electronic application must stay simple on the user end because the FRCs would not have sophisticated personnel or equipment in a lot of their offices.

Mr. Gilliland said the DWSS had a multiple-page application, which sometimes could be quite daunting for someone sitting down to fill it out. As the person went through the electronic application, the process would actually be easier. The electronic application would present only those questions relevant to one's particular circumstances to the individual filling out the application. So Mr. Gilliland believed the electronic application would be a far more simple process.

Chair Denis wanted to talk about the implementation and ongoing support costs. Did Mr. Gilliland know the ongoing costs? Mr. Gilliland said he knew the costs but did not have the exact information with him. He knew it was approximately $1 million per year in the 2011-2013 biennium on an ongoing basis, specifically from the electronic application perspective. Obviously the cost was subject to whatever inflationary numbers occurred. He believed the cost was something less than $1 million in its entirety, but he did not have the exact number with him. He later received confirmation the cost was slightly less than $1 million anticipated as an ongoing cost in the future years beyond this biennium.

Chair Denis asked whether the agency was intending to have a competitive bid process for the DWSS project. The reason he asked was he thought the DWSS was going to select IBM or an IBM partner. Some of the language was very specific so he asked if the agency would pursue a competitive bid.

Mr. Gilliland answered yes, but wanted to provide a little more explanation. He had met with the Purchasing Division within the last few days. What he would like to do was begin the procurement process in the current biennium subject to legislative approval of this particular TIR. In doing so, the strategy he would deploy was to first get a request for information (RFI). The RFI would be released to anyone who wished to provide information on how to structure the RFP. Then after the DWSS had the RFI from anyone who wished to provide information, the DWSS would structure the RFP. The RFP would allow open bidding from anyone who wanted to bid on the project.

Chair Denis asked whether the IBM platform was the only thing the DWSS could accept. Mr. Gilliland said that was a question he must defer to DoIT. One of the primary elements of the software was an IBM software platform called FileNet Content Manager (FileNet), which worked behind the system. What he required was some software applications complimentary to FileNet. He also required some additional software applications he did not believe were available as effectively from IBM as from some other vendors. So he would be trying to describe the requirements and then see what software fit best. It may be IBM was the only one compatible with the existing software, but the RFP would not be limited to just IBM. He would structure the RFP in such a way as to best meet the needs of the DWSS.

Chair Denis said as he thought about the project, it appeared the DWSS was talking about a front end to an existing system. He wondered whether the DWSS could look to other vendors that may be able to provide solutions even though the DWSS used IBM on the back end. It seemed like the DWSS would be able to work with other vendors.

Mr. Gilliland said his objective was to structure the RFP in such a way to encourage bids from any vendor that felt it could meet the needs regardless of the type of application. Mr. Gilliland asked to go back to a question asked earlier on the ongoing maintenance. He had indicated it was going to cost something less than $1 million. He went back and took a look at the numbers and the cost was going to be $797,000 for FY 2012 and $918,000 for FY 2013, based on the original equipment list and software list. The DWSS had cut a couple of items so he did not believe it would exceed either one of those numbers in the following two years after this biennium.

Chair Denis asked whether the DWSS had been incorporating best practices for systems planning, including a feasibility study, an analysis of requirements, and an analysis of alternatives, in preparing for all this. Mr. Gilliland answered yes, the DWSS had been doing all of that. The DWSS had been requesting information from other states and whoever else had information to offer, which would help the DWSS move in the right direction to the best of its ability. One of the reasons for the RFI was to encourage information from those persons who would like to provide insight. Then, as the DWSS moved forward, it would be able to incorporate information both into the RFP and into the program as it proceeded.

Chair Denis asked how the DWSS came to make the decision it needed to complete this project. Mr. Gilliland said the electronic application was something which had been considered for several years. It was one of the components. The SOA or overlay retrieval was something the DWSS considered as a possibility to take the current applications and make those more efficient. It was something the DWSS had considered generally as a concept.

Mr. Gilliland stated as he looked at the caseload growth occurring over the next couple of years, he felt the caseload growth would continue beyond the next couple of years. He looked at the number of staff requested in the 2009-2011 biennium. He looked at a deterioration occurring in the service. Again service provided by the DWSS was both quality- and timeliness-oriented. The DWSS had made a decision that whenever it touched an application it would touch it in a quality manner. And if something had to suffer as caseload grew and the number of staff remained relatively static, then it would be timeliness. There had been deterioration in the timeliness. So he said with the level of increase he would need in staff and with the level of growth in caseload, it was time to look at another alternative. This was not an unknown new alternative; this was an alternative which had not been packaged and presented because the timing was not yet right. He felt this was the right time for this alternative.

Chair Denis said the DWSS appeared to be fast-tracking this project. Mr. Gilliland said, yes, that was right. Chair Denis said the DWSS also had the child enforcement TIR project. But on that project the DWSS proposed a different process, not a fast-track, but to go through the whole process it normally would. Chair Denis asked why the DWSS needed this project more than it needed the other project.

Mr. Gilliland answered the child support project was an area which was not just a state-driven system. The child support enforcement program was state-administered yet operated both at the state and county levels. There were multiple organizations within the child support organization. The DWSS had to take into consideration the state and the counties as it moved forward and looked at alternatives. So because of that consideration, it made sense to create a more methodical requirements plan. That plan would take into consideration both the state's needs as well as the various county district attorneys' needs. When the DWSS had completed the analysis from a child support perspective, it then looked at various alternatives. As Mr. Gilliland put things in place, he thought one of the things he would find was what he put in place would work for what he characterized as the 4-A site, basically the TANF, Food Stamp, Medicaid and child support programs. Accomplishing this objective and this task would allow the DWSS a viable alternative for child support. So the DWSS would be able to add it on as an additional element in the future. Mr. Gilliland thought this would become one of the primary alternatives for the child support program moving forward.

Chair Denis said the other question he had was the DWSS talked about doing two major projects simultaneously, one would be fast-track and one would be normal. Based on the past history with NOMADS, was it a prudent thing to try and complete these two projects at the same time. Mr. Gilliland said yes. He provided a little more information for this fast-track project. He hoped to maintain the project scope and deploy a dedicated staff to work specifically on this project. As an example, what typically happened was the projects were managed by a common pool of staff. The DWSS experienced this with the child support project, which was one of many managed by the DWSS. For example, if something were mandated by the federal government which required a change in the underlying program to be in compliance, like the stimulus package, then the DWSS might use its general pool of talent. Projects like the child support project might be delayed as a result of the general pool of talent. Mr. Gilliland said he would not like to see a delay in the process. This particular project would have dedicated staff. The staff would be put in place to specifically ensure the project came online on time. The project would have a significant impact on both the efficiency to the clients and improvement to the cost structure of the state.

Mr. McTeer stated there was some risk with this project, because it was being fast-tracked. The speed of this project was the reason it was placed in BA 1325, so the Information Technology Division could supply some additional assistance and oversight to the DWSS.

Chair Denis asked which aspects of the recommended DWSS TIR project would be required to implement the online application functions proposed in S.B. 4. Mr. Gilliland answered the technology investment had an electronic application as one of its elements. The application was specifically designed for TANF, Food Stamps, and Medicaid. Senate Bill 4 was an initiative to put an electronic application online for Medicaid and Nevada Check Up. So what would be required was about $23,000 for an interface between this electronic application and the Medicaid organization. The $23,000 was in addition to what was in the TIR to expand it to include this additional element. As he understood S.B. 4, it contained a modification to the language proposed to delete the funding source from S.B. 4. The $23,000 would be required for the interface which was not included in this TIR. But he thought the DWSS would look to manage the expense as it developed the project.

DEPARTMENT OF ADMINISTRATION
DIVISION OF INTERNAL AUDITS (101-1342)
BUDGET PAGE ADMIN-36

Andrew Clinger, Director, Department of Administration, asked to correct previous testimony regarding Budget Account (BA) 1340. He noted Chair Denis had asked about the cost allocation and whether a revision was needed. Apparently there was a revision needed to BA 1340. He would submit the revision to the Subcommittee. The revision was about $5,000 per year, so it was a small amount. Chair Denis asked when he planned on submitting the revision. Mr. Clinger said he should be able to provide it by Friday.

William Chisel, CPA, Chief, Division of Internal Audits, testified fiscal responsibility and well-run government were especially vital in Nevada as agencies faced an economic crisis. The Division of Internal Audits helped the executive branch meet that challenge. The Division completed executive-branch directed audits. The Division had identified millions of dollars per year in savings to the state. For example, he recommended the use of the business portal and methods to recapture millions of dollars in depreciation each year. Every dollar spent for the internal audit section had resulted in a $33 savings to the state.

Mr. Chisel's office was comprised of three sections. The internal audit section conducted performance audits. The auditors went out and made sure the agencies operated efficiently and effectively and provided recommendations. The auditors used benchmarks for this.

Mr. Chisel said the post-review section reported to the Board of Examiners. Auditors went out and looked at agencies' actual practices. They compared those practices to state guidelines and ensured compliance. The auditors looked at about one-third of the agencies each year.

The third section was financial management. This section developed internal controls for agencies. It also developed internal controls for the

State of Nevada. Additionally, the financial management section helped train administrators on those financial internal controls.

Mr. Chisel explained there were several decision units he would discuss for his budget. Maintenance (M) 160 eliminated four vacant executive auditor positions, which would save about $285,000 a year. Decision unit Enhancement (E) E710 requested nine laptops in accordance with the Department of Information Technology (DoIT) replacement schedule. This concluded his presentation and he would respond to questions.

Senator Rhoads asked whether the Division cooperated with the Legislative Counsel Bureau (LCB) Audit Division. Were Mr. Chisel's audit procedures similar to those of LCB? Mr. Chisel said he cooperated with the LCB Audit Division to ensure their work did not overlap. The audits performed by Mr. Chisel's Division were directed by the Executive Branch. He answered to the Executive Branch Audit Committee comprised primarily of the elected constitutional officers. His office provided internal controls and oversight for the Executive Branch.

Chair Denis said Mr. Chisel indicated he audited one-third of the agencies and asked how many agencies made up the total. Mr. Chisel said there were about 130 agencies in total, and he audited about one-third each year. Chair Denis asked for details. Mr. Chisel said the post-review section specifically looked at the agencies' actual practices. He reiterated there were three different sections in his Division, and again outlined each section's duties.

Chair Denis asked how Mr. Chisel determined which agencies were going to be audited, looking at the internal audits. Mr. Chisel answered audits were directed by the Audit Committee members. Most all of the audits in the recent past had been directed by requests from the Committee or department or division administrators. But if there were not enough requests for audits, he conducted a risk assessment. He looked at the agencies and applied a certain dollar amount, identified when those agencies were last audited, and used a variety of other factors.

Chair Denis noted the Division did six internal audits in 2008. He wondered why the Division projected seven in the other years. Mr. Chisel said it was because of the reduction in staffing and work force in the section. The section staff was reduced from 12 positions to 8 positions. He anticipated doing fewer audits than in the past. Last fiscal year, the section had done one audit that was very labor intensive and took a little longer.

Chair Denis asked how many internal audits the section could do. Mr. Chisel said it varied because each audit was different, like the one he said took a long time. That audit was one in which the auditors went out and looked at all the fixed assets of the State of Nevada. The audit looked back forty years and auditors examined microfiche that took a long time. There were smaller audits the section did like the Agency for Nuclear Projects audit, which was a smaller audit that took less time. So the time to complete an audit would vary.

Chair Denis wondered whether there were some audits that would not get done for ten years at the rate the section was doing them. Mr. Chisel said he coordinated with LCB, which also did audits. Mr. Chisel's audits were directed by the Executive Branch. There were some agencies the Division may not audit for several years. That was because the agency was not what he called a higher-risk agency or did not have a higher payback relative to other audits.

Chair Denis asked to go to the issue of reorganization which involved the staff reduction. As he looked at the budget, the Division had an executive branch auditor 4, executive branch auditor 3, executive branch auditor 2, and executive branch auditor 1. It looked like the executive branch auditor 4 normally performed supervisory duties, and the rest of the auditors would actually do the audits. With the staff reduction, would Mr. Chisel change the duties of the executive branch auditor 4?

Mr. Chisel answered the executive branch auditor 4 would still supervise. The auditor 4 would be the lead supervisor and would have teams below him. There would be a smaller number of teams and smaller numbers in the teams.

Chair Denis wondered whether the auditor 4 would do less because Mr. Chisel would not increase the duties even though the auditor 4 had fewer people to supervise. Mr. Chisel said he would shift some of the supervision work to field work too. The auditor 4 would be out in the field doing audits more than in the past. This auditor would be called a field supervisor at this point.

Chair Denis asked about the training budget of $14,000 for staff training. With the staff reductions, was $14,000 too much, or was it appropriate? Mr. Chisel said he considered $14,000 appropriate. The auditors were professional positions, and he needed to maintain training for them. Chair Denis asked since Mr. Chisel had fewer people, whether he needed less money. He guessed that was the question. Mr. Chisel said he tried to maximize the training money, and he thought it was useful to have that amount.

Chair Denis said he talked about training because since the auditors were professionals, the training allowed the auditors to stay current in their profession. Mr. Chisel said, yes, that was correct. The Division had a professional staff which included Certified Public Accountants (CPAs) and Certified Internal Auditors (CIAs). Those professionals needed to maintain certification for those positions.

Assemblywoman McClain asked whether the Division paid for the staff to obtain continuing education credits. What was the training? Mr. Chisel said the training he focused on was for auditing and report writing which would benefit the agency.

Assemblywoman McClain asked whether the auditors went to conferences to receive the training or was it something brought in house. Mr. Chisel responded most of the time he tried to bring training in house because he thought he got a better payback for it. He had writing instructors from the United States Government Accountability Office (GAO) who came in and provided training on report writing. A significant portion of what the auditors did was to write reports.

Assemblyman Conklin inquired about the performance indicators mentioned. He asked Mr. Chisel to explain the roughly $33 to $1 benefit from audits. He asked how the number was calculated. Mr. Chisel said it was calculated based on the cost of the internal audit section (salaries and overhead) compared to the estimated benefits. When the auditors performed audits, he completed cost-benefit analysis. He would ask what the net benefit to the agency was for these audits. Mr. Chisel would work in conjunction with the agency and together they came up with benefit figures. Then the Division did a follow-up process until it determined the agency had fully implemented the audit recommendations. If the agency fully implemented the recommendations, and the Division deemed the agency had met the initial estimate, the Division considered it a benefit to Nevada. The benefit could be anything from a reduced cost to the agency to a large dollar benefit to the state.

Assemblyman Conklin said there was a significant lag there. Mr. Chisel had given him two things. There was the estimated benefit. As an example, the auditor went in to audit and found these things wrong. If the agency implemented these things, the state would save $100 million. Mr. Chisel said, yes, that example was correct. Assemblyman Conklin said so that was an estimated benefit.

Assemblyman Conklin said then there was some lag time for implementation, and not all of the auditor's recommendations would get implemented. There was another number. He asked whether the $33 to $1 ratio was a benefit estimate based on the audit work or was it from previous years. Mr. Chisel said, yes, it was from previous years. It was not the estimate. He said he would like to use the estimate, but as Assemblyman Conklin said, the estimate was overinflated because not all audit recommendations were implemented.

Assemblyman Conklin asked whether the return was $33 of everything the Division had done in the past versus the amount spent this year or was it $33 versus the year the money was spent to perform the audit. Mr. Chisel said the $33 amount was for the current year. The $33 was the benefit realized for the year. Those could be audits which had been done in the past. Sometimes when the auditors provided recommendations, there was a one-shot, one-time benefit. So the one-shot benefit would be just for that one year. Sometimes the benefit was for several years. The benefit could be ongoing. And when the benefit occurred, Mr. Chisel would carry those benefits forward approximately nine years. His process was based on discussions with the federal government which used the process to roll forward the benefits.

Assemblyman Conklin asked whether Mr. Chisel kept any kind of statistics as to how Nevada rated relative to other internal audit divisions, other states, other cities, or other counties. Mr. Chisel said he had reviewed other audit divisions, and the small sample he had seen indicated most entities were shooting for a $3 to $1 benefit. Mr. Chisel said his office was doing really well with the $33 to $1 benefit. But his benefit ratio came from a small sample. Not a lot of agencies documented the benefit ratio. Assemblyman Conklin asked whether Mr. Chisel believed the benefit ratio was a function of "low-hanging fruit" and eventually the number would come down. Or did he think the benefit ratio was a maintainable expectation. Mr. Chisel responded the benefit ratio was a maintainable expectation. Assemblyman Conklin said he would remember Mr. Chisel said that.

DEPARTMENT OF ADMINISTRATION
MOTOR POOL (711-1354)
BUDGET PAGE ADMIN-41

Keith Wells, Administrator, State Motor Pool, testified the Motor Pool provided fleet management services for a fleet of 860 vehicles based throughout the state. The agency operated three daily rental centers and did in-house maintenance. The budget was pretty brief. The agency only had three decision units Enhancements (E) for Budget Account (BA) 1354. The first was decision unit E606 which eliminated one position in the Reno motor pool office. The E711 decision unit included depreciation associated with the purchase of 59 vehicles in the first year of the biennium and 65 vehicles in the second year of the biennium. The E721 decision unit provided depreciation and operating costs associated with nine additional vehicles for the fleet.

Mr. Wells stated the Motor Pool restructured its rates for this biennium. The new rate methodology was provided by Evan Dale of the Department of Administration, Administrative Services Division. It was an excellent methodology. It would be an asset to the agency for many years to come. The new methodology had very minimal impact on the majority of the state's fleet. The only agencies which would see an increase in costs would be the agencies which drove the large, expensive vehicles. The large, expensive vehicles comprised approximately 1 percent of the fleet and represented nine vehicles. The majority of the state's fleet would see very little change in the operating costs to use the Motor Pool.

Assemblyman Goicoechea had concerns about reducing the monthly rate. He realized it was a little easier to buy a car now than it was before. But he still really questioned why the monthly rate was being reduced to $30, or a dollar a day, in these economic times. When people talked about renting a premium or full-size vehicle, why would the Motor Pool reduce the rate? It was probably not appropriate to cut the fee charged if someone rented one of these vehicles. He did not see the reason to reduce the rate.

Mr. Wells explained the overall rate methodology he proposed to use would properly recover costs from all the cost centers billed through this rate methodology. Before this methodology, the rates were not balanced properly. The Motor Pool captured too high of a cost from one class versus another class. This new rate methodology properly accounted for the depreciation associated with the vehicles in a specific class and the maintenance costs for vehicles in a specific class. The budget would be whole. The rate methodology was very sound. It was very effective and it was very easy to follow. It would work well. He was confident with these rates. Assemblyman Goicoechea asked whether it would recapture the total budget. Mr. Wells said yes.

Assemblywoman McClain said she was sorry Mr. Wells did not give the Subcommittee a presentation about some awards the agency had received. So since Mr. Wells was too modest, she spoke about some. In 2009, the agency received national recognition as one of the top 100 fleets in "The 100 Best Fleets in North America" for meeting standards of excellence. Additionally, the Nevada State Motor Pool was ranked by "The 100 Best Fleets" as the 14th greenest government fleet in North America out of 38,000 government fleets in the country. She complimented Mr. Wells and said good job. Mr. Wells said he was very proud of the awards.

Chair Denis asked about the reserve balance. There was a $630,000 reserve balance shown at the end of FY 2011. But normally $850,000 would be more appropriate for a 60-day reserve balance. Mr. Wells said he was confident with the $630,000 reserve. The Motor Pool struggled for the last couple of bienniums with its reserve levels. This would bring an approximate 60-day reserve level to the agency. It was satisfactory and he was very comfortable with it.

DEPARTMENT OF ADMINISTRATION
MOTOR POOL VEHICLE PURCHASE (711-1356)
BUDGET PAGE ADMIN-48

Keith Wells, Administrator, State Motor Pool, testified on the Vehicle Purchase account. There were only two enhancements in this budget. The first was Enhancement (E) 711 which recommended $1.4 million to purchase 59 replacement vehicles in the first year of the biennium and $1.5 million to purchase 65 replacement vehicles in the second year of the biennium. In decision unit E721, approximately $161,000 was included to purchase nine additional vehicles for the fleet, and those would be purchased in the first year of the biennium.

Chair Denis asked whether there were cars reassigned because of changes or elimination of positions in the Office of the Secretary of State. The four reassigned vehicles were a result of the Secretary of State's Office returning four vehicles that were reassigned to the Rural Child Welfare agency. Did Mr. Wells anticipate seeing returned vehicles from other agencies? Mr. Wells said he did not anticipate additional returns at this time.

DEPARTMENT OF ADMINISTRATION
ADMINISTRATION – HEARINGS DIVISION (101-1015)
BUDGET PAGE ADMIN-92

Bryan Nix, Senior Appeals Officer, Hearings Division, provided an overview of the Hearings Division. The Division was responsible for conducting hearings for workers' compensation cases, victim of crime cases, and a variety of cases from other state agencies, including state bid-award disputes and Department of Education disciplinary disputes. The Division had interagency agreements with the Department of Employment, Training and Rehabilitation; the Division of Health Care Financing and Policy (Nevada Medicaid); the Department of Public Safety's Division of Emergency Management; and the Department of Business and Industry's Divisions of Financial Institutions and Mortgage Lending. The budget had no enhancements. He was open to responding to any questions from the Subcommittee.

Chair Denis asked Mr. Nix to bring the Subcommittee up-to-date on the recommendations that came about from the audit on contract management. How had Mr. Nix addressed those recommendations on contract management? Mr. Nix answered he was unsure how to respond. Chair Denis said the recommendations resulted from the Legislative Counsel Bureau (LCB) audit and rephrased his question. Mr. Nix responded all the audit recommendations from the LCB audit were implemented before the audit was even concluded. He was not sure there were any remaining questions for the Hearings Division on any of those audit recommendations. If there were any questions he would be happy to address those.

Chair Denis asked whether the Division also reviewed contracts for the Victims of Crime (VOC) program. Mr. Nix replied yes. He thought the primary issue from the audit a year ago was the Division had a variety of contracts with interpreters. There was an issue raised in the audit because the Division may have an interpreter appear for only one hearing. The Division did not have a contract with a single interpreter who might have appeared at only one hearing, so there were some questions about whether or not the Division needed to have contracts.

As an example, Mr. Nix cited what would happen if the Division had a case involving the use of the Vietnamese language. The Division did not typically have interpreters available for the Vietnamese language or have contracts with those interpreters. The Division would request the district court to provide an interpreter who spoke and interpreted the Vietnamese language. The interpreter would appear at the Division for the single hearing. Mr. Nix thought the auditor was concerned about that individual not having a contract signed with the Division. The Division addressed the concern primarily by developing a form for those interpreters to sign when the interpreter appeared for the hearing. Often those interpreters who appeared before the Division did not even have the authority to enter into a contract for their agency. They were just there to testify and interpret for a half-hour hearing. Mr. Nix thought that was the issue from the audit.

Chair Denis said what he saw were audit concerns about issues of cash receipts, payroll, evaluations, and equipment. The concerns for the Hearings Division only were about issues of contract management and budget monitoring. Had the Division implemented all those recommendations? And how would the Division ensure those recommendations would be maintained?

Mr. Nix replied most of the issues from the audit were relatively minor findings found in a particular contract or a particular incident. Those findings had all been addressed. All were monitored. The Division had a couple of employees who had completed the state contract management programs and were dedicated specifically to monitoring those contracts and ensuring compliance with all those requirements. Mr. Nix said he thought the Division had made quite a bit of progress in this area.

DEPARTMENT OF ADMINISTRATION
VICTIMS OF CRIME (287-4895)
BUDGET PAGE ADMIN-97

Bryan Nix, Nevada Victims of Crime Coordinator, testified on the Victims of Crime (VOC) program Budget Account (BA) 4895. The VOC program received a variety of sources of funding from the courts primarily from fines and assessments against criminals and also received some federal funding. It did not receive any state General Fund. The program provided a variety of benefits to victims of crime. The program paid the victim's medical bills, counseling bills, lost wages, relocation expenses, and domestic violence case expenses. There were no enhancements in the budget.

Mr. Nix provided the Subcommittee with a report (Exhibit D) which was generated each year for the Legislature in accordance with NRS 217.250. The report had some general information about the program's caseload and claims paid. He would answer any questions from the Subcommittee.

Assemblywoman McClain asked whether the program had a backlog in victim's claims. Mr. Nix replied, no, it did not. He said there was a backlog a few months ago, but staff worked hard to eliminate the entire backlog. Assemblywoman McClain asked whether the Division had any large claims pending or anything like that. Mr. Nix said, yes, the program had, at any given time, about 2,500 open claims.

Mr. Nix explained a bill draft request (BDR) had been submitted for the program that he was not sure would be drafted before the legislative session ended. He sought to create some programs to help victims with catastrophic injuries. The program currently had a statutory claim limit of $50,000 per VOC claim. The Board of Examiners had further limited claims to $35,000. The limit was set a number of years ago primarily because of a lack of funding for the program.

The revenue for the program currently exceeded the Division's expenditure authority in the budget.

Assemblywoman McClain asked whether the program had a large reserve. Mr. Nix answered, yes, depending on what its authority to spend would be, that it looked like the program would receive more money than its expenses and thus would develop a reserve. Mr. Nix hoped to get the expenditure authority to pay the victim's claims.

Mr. Nix testified his report (Exhibit D) contained charts and graphs which provided the details. He said the first chart reflected $39,137,951 in medical bills and other victim expenses for fiscal year (FY) 2008 submitted by the victims. He did not have budget authority to pay $39 million in claims. The program paid $7,239,827 through its bill review process to satisfy $39 million worth of claims, as shown in the second column. So the program had stretched its revenue pretty significantly. Unfortunately, the hospital line showed the program received $27,681,111 in emergency room and hospital bills, yet it only paid $1,872,829 for those claims. The program paid the hospitals about 10 percent of the bills after the program's reductions from its bill review process. The 10 percent amount paid was a significant hit to the hospitals. Once a hospital accepted a reduced payment, then the victim was relieved from the obligation because of the law protecting victims. So there was a true benefit to the victim regardless of how much the program paid the hospitals.

Assemblywoman McClain asked what the number of claims was. Mr. Nix said many of the claims involved emergency room hospital bills. Page 3 of Exhibit D listed the number of applications filed by crime type in FY 2008. The program received 2,376 applications for assistance. It approved 1,329 of those applications. Most of the hospital bills related to the assault category because those were the people shot, stabbed, beaten up, or clubbed in the head. Those victims went to the hospital to receive treatment. The victim would be released from treatment and file an application. Then the program paid the hospital bill at whatever was possible within its budget constraints.

Assemblywoman McClain asked whether the program kept track of the age of victims so elder-abuse victims could be determined. Mr. Nix said, yes, he tracked age; however, the age was not included as part of the report. He would provide Assemblywoman McClain with the information. It was a fairly small number. The program covered elder abuse, but there were not a lot of claims for elder abuse. He was not sure why.

Assemblywoman McClain said there were probably not as much physical harm as there was emotional trauma and fiscal harm. Mr. Nix said the program did not pay for fiscal harm, although it provided mental-health counseling and that type of assistance. The program assisted with injuries and assisted with those types of bills.

Assemblyman Goicoechea said there was a VOC case a number of years ago in Churchill County in his district. He just wanted to make sure he understood the limits. Even though there was a $50,000 cap, the program only paid $35,000. Was that correct? Mr. Nix answered, yes, that was one way to view it. He explained the program had a claim cap of $35,000. But he asked the Subcommittee to keep in mind the program may receive a $100,000 hospital bill. Because of the program's bill review process, it may reduce the bill pursuant to the workers' compensation fee schedules. The program may only pay $18,000 for instance to satisfy a $100,000 medical bill. So although the claim was capped at $35,000, the program paid a $100,000 medical bill with $18,000 of the $35,000 limit. So it was a bit of a misnomer to think the program only paid up to $35,000. The program relieved or satisfied a significantly larger number of medical bills within its $35,000 medical cap.

Assemblyman Goicoechea asked how the program structured hospital reimbursement. How would it work if a victim went to a small rural hospital and received a $200,000 hospital bill? What if the hospital only received $20,000? How did the program structure it? Or how did the program determine how much it would pay to the hospital?

Mr. Nix responded what the program did was reduce the hospital bill to the workers' compensation fee schedule amount through the program's contract with its vendor. Then the program paid the fee schedule amount. If a hospital submitted a several hundred thousand dollar hospital bill, once the program applied all the various fee schedules, the bill may only be $18,000 under the fee schedules. The program would pay the $18,000. The hospital was left with the remainder that exceeded the fee schedule. Many of the hospitals could turn the excess portion over to Medicaid or Medicare. There may be other secondary funding sources for the hospital to recover some of the excess expense. What the program did was the result of limits in its authority to pay claims. The program process required it to write down the bills. In FY 2008, of the $39 million in bills submitted, $27 million of which were hospital bills, the program paid about 10 cents on the dollar of the fee schedule amount. What the program really did was pay the hospitals the lesser amount as a percentage of what the original bills were under the fee schedules and the limitations in the budget.

Assemblyman Goicoechea said so it appeared it was more budget limited than fee-structure limited. Even with the workers' compensation program, the hospitals would generally receive more than 12 percent or 15 percent of the bill. Mr. Nix said he could provide the Subcommittee with hundreds of hospital bills. The hospital emergency rooms billed very heavily. The fee schedules were almost always significantly lower than the amount the hospitals billed for services, especially the emergency rooms. Just to activate a trauma unit in a hospital may cost $30,000, just for someone coming in the front door. He said not to quote him on that figure, which he just estimated. But emergency rooms were extremely expensive. Most insurers usually did not pay the full amount billed for emergency rooms. The Subcommittee members probably knew this from their own insurance programs.

Chair Denis asked whether Mr. Nix submitted a BDR to revise *Nevada Revised Statutes* (NRS) 217.260. Mr. Nix said he had tried. He submitted a BDR through the Governor's Office, and he submitted a BDR through the Justice Commission chaired by Justice Hardesty. He had not actually seen a bill yet. The NRS 217.260 section of the law was an antiquated section put in place by Bill Bible when he was the budget director almost 25 years ago. When the VOC program was first established, it was merely an account in the Budget Division. There was no staff; there was no program. What happened was after the applications were submitted, the Budget Division would gather up all the medical bills and, at some point in time, would pay off those medical bills based on available funds in the VOC fund. In a very short period of time, the number of claims far exceeded the available revenues. Bill Bible submitted a BDR which amended NRS 217.260. It provided authority to the Budget Division to simply take all of those claims and divide the amount of available revenue into those claims and just pay the claims off at a percentage. It was a mechanism to enable the Budget Division to clear out those claims on some kind of a regular basis.

Mr. Nix explained subsequent to that history, the Division had since developed a very active and progressive VOC program, which paid claims on an entirely different basis. The program did not wait until all the bills were finalized and then send the victim a check. The program paid the bills immediately as the claims were received. The program paid victim's wages, paid their prescription medications, and paid the claims immediately. So the mechanism which determined how these claims would be paid was an antiquated provision of the statute. The LCB auditors thought the Division should follow the statute. Mr. Nix already knew if he followed the statute he would decimate many of the programs the Division had established. It would cause the Division to constantly cut payments to victims on a percentage rather than based on a fee schedule that had been developed. So he hoped to get the statute changed this session.

Chair Denis asked what would happen if Mr. Nix did not get the statute changed. How would he come into compliance with the statute? Mr. Nix answered it was his plan not to come into compliance with the statute. He did not mean that to sound bad. The Subcommittee could see from the report what he currently did. The Division's process was what it did every quarter. The Division paid all the claims from the victims as the claims were received. The claims included the wage claims, the prescriptions bills, and all of the medical claims. At the end of each quarter, the program took all of the claims the victim had prior to the time the victim applied to the VOC program. So any claim which pre-existed the application approval was held until the end of the quarter. At the end of the quarter, the program paid the claims based on what funding was left which had been set aside for that quarter. So the program was able to stay current within the parameters of paying those claims timely.

Mr. Nix said so far the program had not run up against the situation where it had to apply the provisions of NRS 217.260. Mr. Nix's concern was if he was required to comply with the statute, then he would pretty much undo many of the policies established by the Division. So he really did not want to comply with the statute. Mr. Nix apologized for saying it that way. He did not want to appear tautological, but quite frankly, the statute was antiquated. He stated the statute really should be corrected this session by a bill.

Assemblywoman McClain asked whether Mr. Nix had a bill yet. Mr. Nix answered he had not seen one. He did not know where the BDR was in the process. He submitted a BDR through the Justice Commission and through the administration. He knew the Governor was limited to 200 bill drafts. Mr. Nix was not sure his BDR made it on the list of 200. He had not seen anything come back on it. Assemblywoman McClain said probably not. She heard the Governor delivered a truckload of bills last week. Mr. Nix said he would be happy if anybody wanted to sponsor this bill. He had posted the BDR on the Division's website. Any effort the Subcommittee could make would be appreciated. He did not know whether the BDR would get drafted this session. He was hoping it would, because it was a minor issue. It was not as if the Division violated the law. The statute had a whole lot of different meanings to it, and the Division was not really violating it. The Division was able to comply with it in the way it paid claims. But it would certainly clear the books if the Division could get the law corrected so it was not in technical violation of some of that statute's provisions at times.

Mr. Clinger stated there were two sets of bill drafts the executive branch submitted. There were the policy bills which were due in September, and then there were the budget bills which were due last week. This would have been a policy bill. He could not remember whether this bill was in the list of policy bills, and he would look and provide the information to the Subcommittee.

Chair Denis asked about the four-year contract entered into in 2008 with the Division's third-party administrator. He asked Mr. Nix to speak about the services anticipated this biennium. Would he indicate the amounts included, and whether or not the amounts included in The Executive Budget needed to be adjusted to meet those contractual arrangements? Mr. Nix answered, yes, the amounts needed to be adjusted. This contract went out to bid this year through the Purchasing Division. The lowest bid was accepted and the contract was negotiated by the Purchasing Division. Unfortunately, the budget deadline took place before the Purchasing Division completed the negotiation of this contract. The amount of this contract exceeded the amount in the budget by about $180,000, so a budget amendment was needed to allow for the full cost of the contract.

Chair Denis asked Mr. Clinger whether the amendment was coming or had it already been submitted. Mr. Clinger replied it had not been sent yet, but he believed it could be sent over on Friday with the other items requested.

Chair Denis asked about performance indicator number 2, which showed only 61 percent of victims' claims were processed within the statutory requirement of 60 days (compared to 88 percent projected). What strategies had the Division considered to improve the backlog and satisfy the statutory requirements to process claims within 60 days and get back in line with the performance indicators?

Mr. Nix noted that on page 6 of Exhibit D, the Subcommittee could see the information on the time to award compensation from the date a completed application was received until the payment of compensation. The first line of the chart indicated in FY 2008, 522 claims were approved in less than 15 days, and 207 claims were processed within 16 to 30 days. There were 496 claims that were not approved in less than 120 days.

Mr. Nix explained in FY 2009 year to date there had been a shift in activity. There were 767 claims approved in less than 15 days and 187 approved in 16 to 30 days. One could compare that to the chart for the last 90 days because Mr. Nix had implemented some significant policy changes and programmatic changes. Of all the claims submitted in the last 90 days, 328 claims were approved in less than 15 days. The most telling fact was at the end of the last column, which showed the average number of days for approval was 86.33 days in FY 2008. Currently, for the last 90 days, it was 6.49 days for approval from the date of application. In reality, almost 99 percent of claims were approved within 2 days. One could see from the chart beneath it, the yellow line indicated approval in less than 15 days versus the very small amounts for the longer periods. The claims which exceeded 15 days were usually claims for which the Division was waiting for additional information from the victim. The Division held the application until the victim responded to a request for information needed to approve or deny the claim. So the Division had made dramatic changes to its policies and procedures to speed up the process. Mr. Nix thought the Division already saw major effects.

Chair Denis noticed the Division had two vacant positions including a claims examiner and an administrative assistant. He asked about the status on filling those positions. Mr. Nix said he was in a holding pattern. The administrative aide position was located in Reno. One of the Division employees died, and the Division had not filled the position primarily because of the hiring freeze. The Division had implemented so many improvements to its processing of the applications that it was not sure it needed to fill the position. The Division had eliminated a lot of the redundancy of the duties of those positions. Those duties were tasks involved in doing certain things the Division no longer needed to do anymore. The Division would need to fill the compensation officer position in Las Vegas and the claims examiner position at some point. But again, the Division was holding off to see how everything went with the budgets and financing.

Chair Denis asked whether the particular position was that of the individual reported in the news. Mr. Nix answered yes. Chair Denis asked what policies had been adopted to prevent criminal activity within the VOC program from occurring again. Mr. Nix responded this was a claim that an employee embezzled money by creating false VOC claims. The Division had made a lot of changes, not only to its procedures, but also to the way documents or information could be changed within the claims-management system. Part of this change was a layering of responsibilities by making sure certain employees could do some things and that another employee had to do other things. Mr. Nix knew the Subcommittee understood the internal controls concepts. The Division made certain improvements and changes to its claims management database, so one could no longer change a name of an existing applicant to a different name. That is what had occurred. Old files had been repopulated with different information and then claims had been filed under those old files. That was no longer possible under all the changes implemented to the database and the procedures.

Chair Denis asked Mr. Nix to discuss performance indicator number 4, which was the percent of claims in which compensation was awarded. Did it relate to accepted claims? Mr. Nix said yes. He apologized for this and said he planned to update and improve these performance indicators in the next budget cycle. Mr. Nix had included two fiscal years in his report on page 5, Exhibit D. For FY 2008 the chart showed 56 percent of applications for compensation were approved and 44 percent were denied. For FY 2009 year-to-date, the chart showed 19 percent of the applications still pending. Those claims had not been finalized. But 61 percent had been approved, which was a fairly substantial increase in the number of claims approved (871). Of those claims pending, he anticipated a large percentage would be approved as well.

Mr. Nix explained the approval was primarily because the Division made some significant changes to its policies on sexual assault and domestic violence claims. The Division now accepted claims which in the past had been denied for certain conduct of the victim. The Division had updated its policies so victims were not denied because of certain conduct, particularly in sexual assault claims. As an example, if a juvenile victim skipped school, went out and got alcohol, threw a party, drank, got drunk, had unfortunate sexual activity, and then filed a claim, then some of the claims were denied for the activities which led up to the sexual assault. The Division now no longer denied claims for those reasons. So Mr. Nix thought the Division would see a lot more approvals of those applications based on some of the policy changes, which he thought were good things.

Chair Denis asked about legislation which might impact the agency including Assembly Bill (A.B.) 114, A.B.116 and Senate Bill (S.B.) 113. Assemblywoman McClain said it appeared A.B. 116 pretty much codified what Mr. Nix said were Division practices now about certain contributory conduct. Mr. Nix said, yes, that was exactly true, especially about sexual assault claims. He had problems with the provisions with domestic violence claims within the provisions of A.B. 116. He addressed the issue on the Division's policies, but he had objections to the inclusion of domestic violence cases in sexual assault contributory conduct claims. Assembly Bill 114 was not well-worded. The bill would essentially prevent monies received from court administrative assessments from reverting to the General Fund. Mr. Nix said he thought it was called reverting, but it was not actually a reversion. Those funds would be maintained under the provisions of A. B. 114, which passed the Assembly Judiciary Committee unanimously. So those funds would remain in the VOC fund for use in future years as a reserve for victim's claims. This reserve would account for some of the ups and downs of the revenues.

Assemblywoman McClain asked how big of a reversion it was normally. Mr. Nix responded the reversion was about $895,000 in the last three years. The reversion was dedicated to the VOC program. The reversion was actually provided to the General Fund because the Division did not have spending authority in its budget to spend the $895,000 over three years. This year the reversion may be significantly less, as a result of the economy. The important salient point about the $895,000 was that money was matched by the federal government at 60 cents for each dollar. So that reversion amount would have generated about another $500,000 for the VOC program if the Division could spend the money on victim's claims. Under A.B. 114, that money would remain in the VOC fund and then could be built into future budgets to pay for various victim claims. That amount would be matched by the federal government.

Assemblywoman McClain asked whether the reversion was included in the budget. Mr. Nix said, no, it was not included this fiscal year. Mr. Clinger clarified how the mechanism worked. For example, Mr. Clinger budgeted a certain amount to be received from court assessments in the VOC program. The way it worked currently was that when the actual revenues exceeded the budgeted amount, the excess was deposited directly into the General Fund instead of depositing the excess into the various accounts. A reversion only became an issue when the revenues exceeded the budgeted amount. Mr. Nix said that had occurred in the last three years. But he did not know whether it would occur this year or next year. Those funds were derived from fines imposed by the courts. If people could not pay the fines, no additional revenue would accrue to the VOC program.

Chair Denis asked Mr. Nix to finish up with the federal economic stimulus package. He asked how it would affect Mr. Nix's Division. Mr. Nix replied the federal stimulus package would not impact his Division much. He told the Subcommittee he received an email from the National Association of Crime Victim Compensation Boards which indicated what some of the revenues might be. His biggest concern about those revenues was the way the Division received the federal grant funding. The way he currently received matching funds was based on how much money was spent from state dollars. So if, for instance, in this fiscal year the Division spent $1 million on victim claims, (not payroll, not staff, not travel, but just victim claims) the Justice Department would match the $1 million with $600,000.

Mr. Nix said he had not analyzed the stimulus package thoroughly and apologized for that. The Division was required to spend federal dollars before it spent the state dollars that received credit for future federal funding. For instance, if the Division took in an influx of federal dollars under this program, the Division would be obligated to spend that money down before it was able to spend the state dollars. If those funds were used for other purposes, it might be great for the state. But because the Division was not spending state dollars, it would not receive the match for future years.

Mr. Nix did not know if this was true yet because he had not had a full chance to analyze the stimulus package. If the Division took in $1 million of this funding and was required to spend that money before it spent any state dollars then it would reduce the state funding the Division could spend. It meant the Division would not get further matching grants in future years. So it could actually have a negative impact on the program over time by having flooded the Division with money that it could not spend right away. The Division only had so much budget authority, and there were only so many claims. If the Division had to hold on to the stimulus money, it could significantly reduce the additional matching funds in other years. The stimulus effect was a number he had not really calculated yet.

Chair Denis said the Subcommittee was now to the public comment section of the meeting. No person had signed in to testify. No individual came forward to testify or comment. There being no further business before the Subcommittee, Chair Denis adjourned the meeting at 10:27 a.m.

RESPECTFULLY SUBMITTED:

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Janice Wright
Committee Secretary

APPROVED BY:

____

Assemblyman Mo Denis, Chair

DATE:____________________________________

DATE:________________________________

EXHIBITS

Committee Name: Assembly Committee on Ways and Means/Senate Committee on Finance Joint Subcommittee on General Government and Accountability

Date: February 26, 2009 **Time of Meeting: 8:07 a.m.**

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Sign-In Sheet
	C	Krista Leach	Risk Management Budget Overview
	D	Bryan Nix	2009 Victims of Crime Program Report