

**MINUTES OF THE
SENATE COMMITTEE ON FINANCE**

**Seventy-fifth Session
February 9, 2009**

The Senate Committee on Finance was called to order by Cochair Bernice Mathews at 8:04 a.m. on Monday, February 9, 2009, in Room 2134 of the Legislative Building, Carson City, Nevada. The meeting was videoconferenced to the Grant Sawyer State Office Building, Room 4412, 555 East Washington Avenue, Las Vegas, Nevada. [Exhibit A](#) is the Agenda. [Exhibit B](#) is the Attendance Roster. All exhibits are available and on file in the Research Library of the Legislative Counsel Bureau.

COMMITTEE MEMBERS PRESENT:

Senator Bernice Mathews, Cochair
Senator Steven A. Horsford, Cochair
Senator Bob Coffin
Senator Joyce Woodhouse
Senator William J. Raggio
Senator Dean A. Rhoads
Senator Warren B. Hardy II

STAFF MEMBERS PRESENT:

Brian Burke, Principal Deputy Fiscal Analyst
Gary L. Ghiggeri, Senate Fiscal Analyst
Michael Archer, Committee Secretary

OTHERS PRESENT:

Brian K. Krolicki, Lieutenant Governor, Office of the Lieutenant Governor
Stephanie Day, Deputy Director, Budget Division, Department of Administration
Kate Marshall, State Treasurer, Office of the State Treasurer
Kim R. Wallin, State Controller, Office of the State Controller
Patricia D. Cafferata, Executive Director, Commission on Ethics
Paul V. Townsend, Legislative Auditor, Audit Division, Legislative Counsel Bureau
Stephen M. Wood, Chief Deputy Legislative Auditor, Audit Division, Legislative Counsel Bureau

COCHAIR MATHEWS:

At our last meeting, we discussed the Committee Standing Rules and are providing Committee members with a copy of the revised "Senate Committee on Finance Standing Rules -- 2009 Session" ([Exhibit C](#)).

GARY L. GHIGGERI (Senate Fiscal Analyst, Fiscal Division, Legislative Counsel Bureau):

I will now read the "Senate Committee on Finance Progress Report as of February 5, 2009" ([Exhibit D](#)). During the upcoming meetings, 63 Capital Improvement Projects (CIP) will be heard by the CIP Subcommittee beginning February 24.

SENATOR COFFIN:

Regarding the CIP, I made an inspection last Saturday of the old Stein Hospital at the Southern Nevada Adult Mental Health Services campus in Las Vegas.

With a minimum of repairs, we could move some acute care patients there from the Desert Willow Treatment Center. This may allow us to continue to receive Medicaid reimbursement at that facility.

COCHAIR MATHEWS:

We will now hear the budget for the Office of the Lieutenant Governor.

ELECTED

Lieutenant Governor – Budget Page ELECTED-42 (Volume I)
Budget Account 101-1020

BRIAN K. KROLICKI (Lieutenant Governor, Office of the Lieutenant Governor):

As Lieutenant Governor, I serve as Chair of the Commission on Economic Development, Chair of the Commission on Tourism and Vice Chair of the State Transportation Board and Executive Branch Audit Committee; this, in addition to my duty as President of the Senate.

We have 1.5 full-time employee (FTE) positions vacant and will soon have a second vacancy. Our budget calls for the elimination of one FTE position in the second year of the biennium. As a result, the Office of the Lieutenant Governor will have laid off one-third of its staff to comply with budget reductions.

The Commission on Economic Development is busy retooling its approach. Director Michael Skaggs has been an extraordinary addition, especially working with our counterparts in the rural areas.

The *Nevada Revised Statutes* mandates the Commission on Tourism to choose its director by identifying and submitting the names of three candidates to the Governor for approval. However, the Governor wishes to combine the Commission on Tourism with the Commission on Economic Development. I do not agree with that decision. These two Commissions have distinct and separate responsibilities, different audiences and skill sets. If these Commissions are to be combined, and the position of Director of the Commission on Tourism is abolished, it would be inappropriate to fill that position at this time. In addition, the budget for the Commission on Tourism is scheduled to be reduced by 58 percent in the Governor's recommended budget.

SENATOR RAGGIO:

In the event the budget process results in salary cuts for public sector employees, as a constitutional officer, are you agreeable to having your salary reduced by a similar amount?

MR. KROLICKI:

Yes.

COCHAIR MATHEWS:

How much out-of-state travel do you intend doing in the next biennium?

MR. KROLICKI:

Both the Commission on Economic Development and the Commission on Tourism have important relationships with countries in Asia, particularly China. This budget allows for one trip to China. I have made many trips overseas in my capacity as Lieutenant Governor. Several of these trips have been funded

outside the budget. For example, I lead delegations of Nevadans who pay a premium to participate. That premium pays for my costs. Considering the recent economic downturn, there is not a more important time to be pursuing tourism-related activities than now.

SENATOR RAGGIO:

Some other budgets are requesting closure of our foreign offices and our Washington, D.C. office. How valuable are these offices to your mission?

MR. KROLICKI:

The offices are important. We must not lose any resource which helps attract tourist dollars to Nevada. We are sharing resources with other offices around the world. More tourists coming to our State will help get us out of this economic recession sooner.

COCHAIR MATHEWS:

Do you not need a bill draft request (BDR) to reduce your salary?

MR. KROLICKI:

Staff salary can be reduced without a BDR; however, as a constitutional officer, it would require a BDR to reduce my salary.

STEPHANIE DAY (Deputy Director, Budget Division, Department of Administration):

We will submit a BDR addressing salary reduction for constitutional officers before the February 20 deadline.

COCHAIR MATHEWS:

We will now hear the budget for the Office of the State Treasurer.

State Treasurer – Budget Page ELECTED-156 (Volume I)
Budget Account 101-1080

KATE MARSHALL (State Treasurer, Office of the State Treasurer):

The Office of the State Treasurer makes sure the money of the State is safe. We invest the State's money and issue the State's debt. We pool collateral for all public monies and control unclaimed property. We pay tuition under the Millennium Scholarship and the State College Savings Trust.

In budget decision unit E-251, we reviewed the duties for each position and reallocated how those salaries are paid to more correctly align them with how those positions function.

E-251 Working Environment and Wage – Page ELECTED-158

These positions have more diverse functions than those covered under the General Fund. The result is a reduction in General Fund expenditures of \$519,115 in fiscal year (FY) 2009-2010 and \$616,589 in FY 2010-2011.

In budget item E-806, the Governor agreed to our request for an increase in the salary of the deputy treasurer for investments.

E-806 Unclassified Position Salary Increases – Page ELECTED-162

Treasurers in almost every other state pay more than Nevada does to those in this position. We cannot get applicants for the job due to the amount of salary we are offering. Our alternative is to outsource the work which will cost the State an extraordinary sum of money. The Interim Finance Committee agreed with me that the salary is too low.

COCHAIR MATHEWS:

Do you still have the investment analyst position open?

MS. MARSHALL:

Due to job stress, the current deputy treasurer has asked to move down and have someone else take the position.

Cochair Mathews:

How can you justify asking for this when other agencies are being asked to cut positions?

MS. MARSHALL:

Money for this position does not come from the General Fund. We are asking for a salary equivalent to an individual who heads a large agency and deals with great sums of money. This position is equivalent to that of the Department of Administration Director Andrew Clinger, whose salary is \$127,721. The Governor's recommended salary for this deputy treasurer position is \$120,492.

States similar to Nevada pay more to the top person handling their investments. South Dakota has a General Fund of \$3 billion and pays their head investment person \$122,000 a year. Montana has a General Fund of \$2.6 billion that they invest. They pay \$100,000 a year and offer a performance bonus of up to 20 percent. New Mexico's General Fund is \$7 billion and was paying their top investment person \$85,000. That person resigned because the salary was too low. The job of deputy treasurer for investments was refused by that individual because our salary offer was too low as well. Oregon has a General Fund of \$12 billion and pays the investment person up to \$264,000 annually with a bonus of 30 percent.

With so many investment people out of work because of our national economic problems, I would think I could find someone to fill this position easily. But I cannot.

COCHAIR HORSFORD:

Would an increase in the salary of deputy treasurer for investments, create a need to adjust the salaries of comparable positions in the Office of the State Treasurer? What are the estimated costs for outsourcing this work?

MS. MARSHALL:

None of my deputies would take that position because they understand the stress level involved and would not ask for a comparable salary. In addition, they know the investment position has traditionally been paid more.

When I first asked for this position, we were only outsourcing \$300 million. For that service, we were paying \$500,000 a year. From that, you may extrapolate how much it would cost to outsource our entire investment of \$3.6 billion.

COCHAIR HORSFORD:

What is the likelihood you will be able to fill this position with the salary increase recommended in the *Executive Budget*?

MS. MARSHALL:

Contingent on that increase in salary, we have one person interested. They may agree to start work in advance of the actual pay increase in October if they are comfortable the increase will be approved.

MS. MARSHALL:

I will now discuss the Treasurer Higher Education Tuition Administration budget.

Treasurer Higher Education Tuition Administration – Budget Page ELECTED-165
(Volume I)
Budget Account 603-1081

This program allows people to purchase prepaid undergraduate tuition to attend Nevada institutions of higher learning in the future at current costs.

I wish to improve the way we market this program. When we send representatives of the Treasurer's Office out to speak about education programs, they not only talk about the prepaid tuition program but also about the Millennium Scholarship. My request for travel funds takes into account an outreach that covers all of them.

I will now discuss the budget account for the Millennium Scholarship. I have provided you with a handout ([Exhibit E](#)) that provides the number of students who received a Millennium Scholarship, broken down by high schools in each State Senate district.

Millennium Scholarship Administration – Budget Page ELECTED-171 (Volume I)
Budget Account 261-1088

The tobacco settlement accounts for 40 percent of the funding. We are requesting money for travel expenses to meet our outreach goals. To extend the viability and solvency of the program, we have asked that the administrative costs of \$450,000 be taken up by the Nevada College Savings Plan. The plan's board members voted to approve this idea. This should extend the solvency of the Millennium Scholarship for an additional year.

Please refer to my handout ([Exhibit F](#)) regarding the Millennium Scholarship funding. How long the money will last depends upon making certain assumptions. If the tobacco revenue is reduced an additional 10 percent from what is projected, and if the administrative costs are passed to the Nevada College Savings plan, then the Millennium Scholarship funding should be good through FY 2019-2019.

You will be considering legislation this Session to withhold \$7.6 million in funding from the Millennium Scholarship this year and an additional \$5 million next year. Does this mean you are also taking the approximately \$2.1 million in interest which will be earned on that money? If not, and the Treasurer is allowed to keep that interest in the Millennium Scholarship Fund, it will add another year of viability through FY 2019-2020.

COCHAIR MATHEWS:

Were we not told last Session that the Millennium Scholarship fund was only viable through FY 2013-2014?

MS. MARSHALL:

The rules have been changing since the inception of this program. These changes have impacted the number of students who are eligible and the number of students who utilize the program. Originally, we anticipated 58 percent of students would use it within the first semester in which they were eligible to do so. Based on trends we are identifying, I have changed that to 56 percent.

COCHAIR MATHEWS:

Does an increase in university tuition affect this?

MS. MARSHALL:

No. The Millennium Scholarship only pays up to \$10,000. It may, however, affect the number of students who decide to attend. It is not clear if that 2-percent drop in utilization can be assigned to any one factor; but, it may have to do with students not being able to afford the tuition, even with the \$10,000 in assistance.

COCHAIR HORSFORD:

With such increases in the cost of obtaining a college education in Nevada, it is important to know at what point affordability becomes a problem. Is it possible to survey these Millennium scholars to determine at what point they can no longer afford the increased tuition costs?

MS. MARSHALL:

A few years ago, the Nevada System of Higher Education (NSHE) requested such a survey. They found the majority of students had opted on their Millennium Scholarship acceptance sheets not to have information about them released. In accordance with advice from the deputy attorney general, we advised the NSHE they could only sample the subset of students who agreed to release information. They declined.

COCHAIR MATHEWS:

Do you have a position in your office dedicated to handling the Millennium Scholarship?

MS. MARSHALL:

We have one person in Carson City. I am moving one position from Las Vegas to Carson City for support and have two people in Las Vegas who administer this program.

We would be happy to work with your fiscal staff about keeping the interest income to add another year of viability to the Millennium Scholarship Fund.

COCHAIR MATHEWS:

Will this affect the General Fund?

MS. MARSHALL:

Yes.

COCHAIR HORSFORD:

Despite the effect it will have on the General Fund, it is valuable to know what options are available to us. Please provide that information to our staff. We made a promise to these students and should know how long the fund will remain viable.

MS. MARSHALL:

I will now discuss the budget account for Unclaimed Property. I have distributed a booklet titled "The Little Book About Abandoned Property" ([Exhibit G](#), original is on file in the Research Library).

Unclaimed Property – Budget Page ELECTED-178 (Volume I)
Budget Account 101-3815

MS. MARSHALL:

This program identifies abandoned property and money and attempts to get it back to its rightful owners. To give you an idea how many people have unclaimed property, I have found several members of the State Senate who should file applications for varying amounts we are holding.

We are actively getting information out to the public urging them to check to see if they might have unclaimed property. Our staff is contacting holders of abandoned property to advise them they are bound by statute to turn the property over to the State Treasurer once it has been determined to be abandoned. If a holder of property reports late, statute provides they be charged interest and penalties. As a result of that notification, we have had a 25-percent increase in the number of reports we receive.

In FY 2007-2008, we provided the General Fund with \$49 million and we have projected that amount will be \$34 million in FY 2008-2009. We will likely be revising the latter figure on May 1.

As of February 1, 2008, we had received \$72 million in unclaimed property and paid out \$10.1 million. By February 1, 2009, we took in \$66.8 million and had paid out \$13.4 million.

We have expanded our outreach. We once advertised in nine newspapers across the State, posting about 31,500 names. We now advertise in 16 papers and post over 79,000 names.

As a result of a recent Ninth Circuit Court of Appeals opinion, we did send notifications to anyone who had securities or similar tangible assets. This resulted in a 10-percent increase in claims from other persons we were able to identify.

SENATOR COFFIN:

What is your cost for those newspaper advertisements?

MS. MARSHALL:

We pay from \$2.40 to \$2.69 per name and address.

SENATOR COFFIN:

Can you buy "display advertising" instead of paying those rates?

MS. MARSHALL:

We advertise as a shopper insert, and in Las Vegas that fills an entire insert. If you can identify a cheaper way to do this, we will try it.

SENATOR COFFIN:

I request you itemize your costs for us and explain how you distribute the information per publication.

MS. MARSHALL:

Yes, we will. We are currently using the legal rate.

SENATOR COFFIN:

That is the most-expensive rate. We need to change the statutes to allow you to get this information at the least-expensive rate.

MS. MARSHALL:

Senator Care is looking into that for us.

COCHAIR MATHEWS:

Are you getting these claims more quickly now?

MS. MARSHALL:

We have extended our outreach program and that has made it more timely. We now issue those advertisements in May and October of each year which has helped.

COCHAIR MATHEWS:

Why did you not meet the projected 75 staff audits for FY 2007-2008 in Performance Indicator 1 of this budget account?

MS. MARSHALL:

I had one position vacant for seven months. For five months of that fiscal year, the auditors were not doing audits. I had them doing other tasks. For example, the vault was in disarray. We did not know what was in it or who had been in it. I took the staff off audits and had them get the vault, the securities and claims in order.

In addition, Citibank reincorporated in Nevada. They were coming from a state that required abandonment after five years, and our state law required abandonment after three years. This provided us with a two-year set of claims we would not ordinarily have had.

The auditor position is required to do 15 audits annually. Given the number of auditors we have, I do not know how it was projected that they could perform 75 audits. This is why the projected number of staff audits was changed to 55 for FY 2009-2010 and FY2010-2011. This number better reflects our ability to meet that performance measure.

SENATOR RHOADS:

Since you know the names and addresses of the people, why not just send them what they are owed instead of notifying them about unclaimed property in the newspaper?

MS. MARSHALL:

There are many people with the same name, so we must verify the identity of a person who claims property. We routinely identify organizations that may have unclaimed property and also advise legislators how to make their constituents aware of our unclaimed property website. Unfortunately, we do not have enough staff to go through each name and try to identify who owns the property. Doing so would take away from their other duties and is not the most effective use of their time.

COCHAIR HORSFORD:

Beyond aligning with other State agencies, how are you informing the public?

MS. MARSHALL:

We are interested in a method used by some other states which employ public service television time to get the message out, often with phone banks available to answer questions from viewers.

Because they know it will go directly to the General Fund, most Nevada State agencies are not interested in spending time and resources claiming property that belongs to them.

I will now discuss the budget account for the Nevada College Savings Trust.

Nevada College Savings Trust – Budget Page ELECTED-185 (Volume I)
Budget Account 605-1092

A recent audit shows Nevada has an unusually low number of people saving for college. We have been successful in increasing that savings by implementing a payroll deduction for Nevada State employees. Our staff is now trying to get county governments and large businesses to start these payroll deductions. This has been our primary outreach goal and is why we are requesting travel money.

COCHAIR MATHEWS:

The Audit Division also identified some program and marketing fee revenues for the Nevada College Savings Plan that are being accounted for outside of the General Fund. Would you have any concerns if they were added to the *Executive Budget* beginning with the 2011-2013 biennium?

MS. MARSHALL:

We were holding that money in reserve. I will arrange for it to be added into the Governor's budget.

SENATOR RAGGIO:

What are the various plans in the Nevada College Saving Trust Fund? How do they differ?

MS. MARSHALL:

All four plans operate under Internal Revenue Service Code Section 529. One is the Vanguard 529 College Savings Plan. This is a premier plan, primarily marketed to persons who invest in Vanguard. The next is the Upromise College Fund Plan. This is primarily marketed to people with smaller accounts. The USAA 529 Savings program is marketed to military families. Finally, we have the Columbia 529 plan for people who have an advisor at Bank of America and may want to invest through them.

SENATOR RAGGIO:

If we have the Nevada Prepaid Tuition Program, why do people use the other plans?

MS. MARSHALL:

The Nevada Prepaid Tuition Program is for Nevada institutions. The other programs are tailored for particular financial needs or military service.

SENATOR RAGGIO:

What is the role of the Massachusetts company Upromise?

MS. MARSHALL:

Upromise provides program managers who audit the accounts and identify them for properly crediting individual contributions.

SENATOR RAGGIO:

Do they also provide program managers for the Nevada 529 college saving plan?

MS. MARSHALL:

Yes.

SENATOR RAGGIO:

What distinction are you making?

MS. MARSHALL:

The Nevada 529 college saving plan uses Upromise to manage the program and Vanguard to manage the day-to-day investment of the money.

SENATOR RAGGIO:

How many Nevada families are involved today in the Nevada 529 college savings plan?

MS. MARSHALL:

As of June 30, 2008, there were a total of 6,172 Nevada accounts. Since then, some have taken money from their accounts because of the declining national economy. To get more Nevadans involved, we have initiated the aforementioned payroll deductions. We are also focusing on outreach by setting up information tables at public gatherings around the State.

SENATOR RAGGIO:

It seems we have departed from the original concept which was to allow Nevada families to provide their children with protected tuition.

MS. MARSHALL:

I agree.

SENATOR COFFIN:

Could fees the State collects from Vanguard, USAA and Columbia for managing that program be used to subsidize the marketing of the plan here in Nevada?

MS. MARSHALL:

Yes. Those fees can be used for the higher education of Nevadans. As mentioned earlier, we are holding that money in reserve until it can be accounted for within the *Executive Budget*.

Municipal Bond Bank Revenue – Budget Page ELECTED-195 (Volume I)
Budget Account 745-1086

MS. MARSHALL:

The last budget account I will present today is the Municipal Bond and Bank Revenue account. This deals with collection and debt services payment related to the municipal bond fund.

In closing, I would like to point out that I have 6 to 8 staff members who are currently working 40 hours a week and living below the federal poverty level. If they are required to take another 6-percent decrease in their salary, as suggested in the Governor's budget, it would be very difficult for them.

SENATOR RAGGIO:

I am amazed we have people receiving State salaries who are living below the poverty line.

MS. MARSHALL:

According to the federal guidelines, a family of four who receives \$38,000 a year, or less, is considered to be below the poverty level.

SENATOR RAGGIO:

To what extent is our State involved in securities lending?

MS. MARSHALL:

In December 2007, I stopped the Securities Lending program. We have had no new accounts since that time. However, we still have securities that were invested earlier and have not yet matured. We have a total of \$300 million in securities of which \$75 million will mature on February 14, 2009. The remainder will mature in August 2009.

SENATOR RAGGIO:

Since we began investing in securities in the mid-1990s, the State has earned about \$12 million. How much have we lost?

MS. MARSHALL:

We have not lost anything yet, and will have that information in August 2009. In March 2009, we have some securities maturing; however, we are able to move some things around and will not have to identify any losses until August 2009.

SENATOR RAGGIO:

How are we able to retreat from that investment? Are we contractually bound?

MS. MARSHALL:

We are contractually obliged and unable to get out of it.

SENATOR RAGGIO:

I am concerned about this and would like to meet with you for further discussion.

COCHAIR MATHEWS:

We will now hear the budget for the Office of the State Controller.

Controller's Office – Budget Page ELECTED-120 (Volume I)
Budget Account 101-1130

KIM R. WALLIN (State Controller, Office of the State Controller):

Please refer to my handout titled “FY 2010 – FY 2011 Budget Presentation to the Senate Committee on Finance” ([Exhibit H](#), original is on file in the Research Library). The mission of our office is to advance accountability, continuity and efficiency in the State’s financial operations. Over \$1 billion a day in transactions are processed through the statewide accounting system. This includes vendors, payrolls, deposits and money transfers. That is why it is important to maintain the integrity and safety of the Integrated Financial System (IFS).

The chart on page 6 of [Exhibit H](#) shows the new projected performance indicators for the coming biennium. These are more meaningful and will help improve our effectiveness. Because debt collection is so important, we have added a measure that shows the percentage of debt collected and the average age of the debt turned over to us. We are now only collecting 11 percent of our smaller debt and 4 percent of our debt over \$25,000. The average age of the debt turned over to us from State agencies is 486 days old.

COCHAIR MATHEWS:

What is the reason the debts are so old by the time they are turned over to you?

MS. WALLIN:

Agencies turn their debts over to us on a voluntary basis. However, Assembly Bill (A.B.) 87 will make it mandatory for them to turn their debts over to the Controller’s Office after 60 days. This should improve our collection efforts by 60 to 70 percent.

ASSEMBLY BILL 87: Revises provisions concerning the collection of debts owed to the State. (BDR 31-494)

SENATOR RAGGIO:

Previous State Controllers have had a much higher percentage of debt collection. Are you saying the FY 2008-2009 performance indicators, showing 11 percent of your smaller debt and 4 percent of your debt over \$25,000, is the result of agencies not turning their debt over to you? Why has there not been a more concerted effort to collect debt?

MS. WALLIN:

Our debt collection was high because we had an abundance of smaller debts to collect such as fees from the Department of Motor Vehicles. As we began to receive debts from other agencies, the amounts became higher and more difficult to collect.

SENATOR RAGGIO:

To what agencies are you referring?

Ms. WALLIN:

We collect debt for every State agency except the Department of Taxation, the State Gaming Control Board and the Department of Employment, Training and Rehabilitation. A recent debt from the Western Interstate Commission for Higher Education was already 5,000 days old when we received it.

SENATOR RAGGIO:

What does this mean in terms of dollars?

Ms. WALLIN:

We receive approximately \$7 million in debt from the agencies each year. There is much more to be collected, but the agencies are not obligated to turn it over to us.

SENATOR RAGGIO:

Why do the agencies not want to turn over their bad debts to the State Controller?

Ms. WALLIN:

Often, they do not have the resources or expertise to follow the regulations for collecting debt. We are now in the process of training them. The passage of A.B. 87 will remedy much of this by requiring them to turn over the debt after 60 days.

SENATOR RAGGIO:

In FY 2008-2009, you project collecting 11 percent of the debt turned over to you. In FY 2009-2010, you project 45 percent. What is that difference when translated into potential dollars?

Ms. WALLIN:

We currently collect \$1 million each year. In FY 2009-2010, we project collecting an additional \$3.9 million.

SENATOR RAGGIO:

Are you prepared to do this?

Ms. WALLIN:

If we get what we are requesting in the *Executive Budget*, and if A.B. 87 passes, we will be prepared to do this. We have also initiated new methods of collecting debt such as allowing installment payments and using coupon books. We also advise the debtor how much more it will cost them if we turn the debt over to a collection agency.

We have three new vendors to help collect debt. One is a law firm that provides us with the ability to file liens and judgments and take more aggressive legal action. These new vendors are contractually required to meet performance measures. Despite the two-year contract we gave them, I can revoke the contract if they do not perform up to the standards.

SENATOR RAGGIO:

Are they paid a fee or a percentage?

MS. WALLIN:

They are paid a percentage. This ranges from 11 percent for regular debt collectors to 35 percent for the attorneys.

SENATOR RAGGIO:

Please provide our staff with detailed information on this.

MS. WALLIN:

I will provide that information.

The chart on Page 6 of [Exhibit H](#) shows the amount paid to vendors by way of electronic fund transfers, the number of documents processed by each full-time employee and the performance of our accounting training effort.

COCHAIR MATHEWS:

Did the elimination of the administrative assistant I position affect your performance in processing documents?

MS. WALLIN:

Initially, it had the effect of lowering our production. However, an experienced employee stepped in and we are now doing better.

We are using State employees for information technology jobs, such as programming, rather than using an outside contractor. This will save us over \$400,000 in FY 2008-2009 through FY2010-2011. Not only is this less expensive for us, it allows us to have our projects completed in a more timely fashion.

COCHAIR MATHEWS:

Please comment on your efforts to implement the IFS Disaster Recovery System.

MS. WALLIN:

The Disaster Recovery System is running in Las Vegas. As a result, we realized a savings of \$138,416 which we returned to the General Fund.

The charts on pages 7 and 8 of [Exhibit H](#) cover items in our *Executive Budget* request. Enhancement item E-252 is to cover expenses for my cell phone.

E-252 Working Environment and Wage – Page ELECTED-122

I do not agree with this item because a cell phone is not a revenue-generating expense. I would rather give up the cell phone and have the Governor reconsider some revenue-generating items he removed from our budget such as decision units E-670, E-671 and E-672.

E-670 Temporary 6% Salary Reduction – Page ELECTED-123

E-671 Suspend Merit Salary Inc for FY10 & FY11 – Page ELECTED-123

E-672 Suspend Longevity for FY10 & FY11 – Page ELECTED-123

If my staff does not get salary increases, it will, represent a 10 to 15-percent reduction, when coupled with the 6-percent cut in pay recommended for all State employees. Two of my employees, who are at the lower end of the pay scale, may have to apply for public assistance.

In addition, I am concerned that not granting these step increases could result in a lawsuit resulting in the State having to pay huge legal fees at a time when we desperately need such funds.

Decision unit E-673, the Spending and Government Efficiency Commission (SAGE) recommendations will result in the Controller's Office losing 23 percent of its staff by the end of June due to forced retirement.

E-673 Implement SAGE Commission Recommendation – Page ELECTED-124

This may result in our inability to get checks out to our vendors in a timely manner which will result in the State being required to pay penalties, fees and interest. I am also concerned we will not be able to get our Comprehensive Annual Financial Report done on time. This will risk deterioration in our bond rating, causing the State to spend millions more in higher interest rates.

On page 9 of [Exhibit H](#) is a chart showing our computer and printer needs for the next biennium as covered in decision unit E-710.

E-710 Replacement Equipment – Page ELECTED-124

Page 11 of [Exhibit H](#) contains information on a LexisNexis subscription which the Governor took out of our budget. I am requesting it be put back in the budget. This service helps us find our debtors' last known address without excessive mailing. Consequently, it saves us time and money.

Page 12 of [Exhibit H](#) describes our request for approximately \$63,000 in additional postage for sending certified letters to debtors. We have noted this amount in the fiscal note attached to [A.B. 87](#).

On page 13 of [Exhibit H](#) is our request for funding to continue the pilot program to develop the eXtensible Business Reporting Language (XBRL) technology. This open-source system allows us to efficiently manage information collection, collation and work-flow processes around our accounts receivable information. This program is used successfully in several other countries. On page 14 of [Exhibit H](#) is an example of the spreadsheet each agency will use to provide information to our office. On page 15 of [Exhibit H](#) is just one section of our debt collection spreadsheet. The data on this sheet must be cut-and-pasted repeatedly by our employees. Page 16 of [Exhibit H](#) illustrates how the proposed XBRL system will eliminate this labor-intensive practice.

SENATOR RAGGIO:
Please explain [A.B. 87](#) in more detail.

MS. WALLIN:
This bill will, in addition to requiring agencies to turn their debt over to us within 60 days, direct the State agencies not to do business with vendors or individuals who owe us money. It will also allow us to charge interest on installment payments.

SENATOR RAGGIO:

What guarantee will we have from the contractor that the XBRL program will really save us money?

Ms. WALLIN:

We did a pilot with the Department of Agriculture grant reporting workload, and what took them two weeks to do before is now taking just one day.

SENATOR RAGGIO:

Will they do more than just install the program?

Ms. WALLIN:

They charge \$15,000 annually to develop the definition of the tags that are placed on the data. They will guarantee the system.

SENATOR RAGGIO:

What does that entail?

Ms. WALLIN:

If it does not work, we do not pay them.

SENATOR RAGGIO:

How do you measure that?

Ms. WALLIN:

If my staff still has to cut-and-paste the data, the program is not working. We do not have to pay them in advance. Just as I did with my collection agencies, I will insist on performance measures.

Since we do not collect debt for the Department of Taxation, we do not have debt offset with them. A more-centralized database would resolve that problem.

SENATOR RAGGIO:

What does the term "debt offset" mean?

Ms. WALLIN:

It means if a person does business with Nevada, and he or she is a debtor, we can withhold their payment. However, because we do not have access to the information from the Department of Taxation, we cannot avail ourselves of that process at this time.

My staff will continue to work with other agencies to help them better collect their debt and prepare them to standardize this process.

COCHAIR MATHEWS:

Please explain A.B. 87 again.

Ms. WALLIN:

This legislation will direct State agencies not to do business with vendors or individuals who owe the State money unless that entity is the only one who can provide a particular service or product.

COCHAIR MATHEWS:

We will now hear the budget for the Ethics Commission.

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Budget Account 101-1343

PATRICIA D. CAFFERATA (Executive Director, Commission on Ethics):

We are an independent State agency. I was not hired by the Governor, nor do I report to the Governor. The Governor appoints four members of the Commission and the Legislature appoints the other four members. The Ethics Commission investigates complaints filed against public employees and officials. We also give advisory opinions and receive ethics acknowledgement forms and financial statements from appointed officials. Our funding this year is derived at 65 percent from local governments and 35 percent from the General Fund.

I am submitting a handout entitled "Nevada Commission on Ethics Annual Report of the Executive Director Patricia D. Cafferata" ([Exhibit I](#)). I am also providing a memorandum dated December 1, 2008, entitled "1343 Additional Budget Cuts for FY 2010 and FY 2011" ([Exhibit J](#)) which describes our efforts to reduce costs within the Commission on Ethics.

I share the State Controller's desire to have access to LexisNexis. We were required to give that up in the Governor's budget and our lawyer now must go to the Nevada Law Library to use that program.

I object to the Attorney General's Cost Allocation in our base budget. We were being charged \$24,000 each year and now are going to be charged \$54,155 in each year of the coming biennium. This is based on a formula. However, that formula dictates that agencies which are not federally funded are supposed to be charged an hourly dollar amount. We do not use the services of the AG and do not have any federal funding, yet we can not seem to get this out of our budget.

MR. GHIGGERI:

I will check to see why this is in your budget. If you want to be charged for AG services like other boards and commissions, I will look into that as well.

MS. CAFFERATA:

The last time we used the services of the Attorney General (A.G.) was in 2006, yet we are still being charged. This presents a conflict because the A.G. represents State employees. If an ethics complaint is filed, the A.G. cannot prosecute. A few years ago, the Legislature created a separate general counsel position for the Ethics Commission. This is why we do not need the services of the A.G. nor to be charged \$54,155 annually.

Over the last few years, I have balanced the Ethics Commission budget by voluntarily reducing my salary by taking ten days of leave without pay each year. The *Executive Budget* for the coming biennium not only contains a 6-percent reduction for all State employees, but reflects my voluntary salary reduction of about \$9,000 each year of the biennium. The result is I am about to suffer a 15-percent cut in my salary.

Since I will someday be leaving this position, I want to protect the salary level for my successor, and, as Executive Director, I should not have to take a 15-percent pay cut.

COCHAIR MATHEWS:

Our fiscal staff has advised me they are looking into this matter.

MS. CAFFERATA:

We have asked for funding of \$13,000 for an interim study on ethics law. The laws vary from state to state. It would be helpful if we looked at how things are done in other states.

There is a proposal to form a legislative ethics commission. This should not have a significant impact on your budget. The Ethics Commission had just four ethics complaints, or requests for opinions, about legislators last year. One was a request for an advisory opinion sought by Senator Raggio. The second was regarding Senator Hardy which has now gone to the Nevada Supreme Court. The two others were for opinions and were filed during political campaigns. It is a common strategy, during political campaigns, to file an ethics complaint to create negative news about an opponent. Because there was clearly no violation, I dismissed both of those complaints. The suggestion here is that even if you created your own ethics commission, there would not be much of an impact on our office.

I have been told the Secretary of State wants to begin processing the financial disclosure statements that have traditionally been done by the Ethics Commission. This will not have an important fiscal impact on our Commission. My only concern is that appointed officials be properly informed their financial statements will now go to the Secretary of State.

We have had an increased number of ethics complaints since the much-publicized complaint against the Governor. I do not know if that is just a surge or whether it will continue.

COCHAIR MATHEWS:

We will now hear the Audit Report Summaries from the Legislative Auditor.

Paul V. TOWNSEND (Legislative Auditor, Audit Division, Legislative Counsel Bureau):

Please refer to the handout entitled "Legislative Counsel Bureau Audit Division, Audit Report Summaries, Seventy-Fourth Nevada Legislature" ([Exhibit K, original is on file in the Research Library](#)). During the interim, a great deal of effort goes into making sure agencies implement our recommendations about the deficiencies we find during our audits. This Committee is the ultimate factor in seeing that these corrections are made since it usually wants these deficiencies corrected before deciding on an agency's budget. During the last two years, the State has realized enhanced revenues, or measurable cost reductions, of \$68 million based on our recommendations. Nevada has one of the most effective follow-up procedures in the country.

On page 26 of [Exhibit K](#) we found that the Division of Mortgage Lending did not always provide adequate regulation of mortgage companies. During calendar year 2007, the Division did not meet its statutory duty to perform annual examinations of licensees. The Division failed to collect about \$490,000 in assessments from its licensees during FY 2006-2007 and FY 2007-2008.

Better monitoring is needed for the collection of administrative fines and settlement agreements. We found 18 unpaid fines and agreements totaling

about \$975,000. If the agency cannot collect the money because the company is out of business, they still need to take timely action and have procedures in place. In some cases, it took six months before they sent a letter to the debtor. If, after following this procedure, they are unable to collect the debt, they may wish to turn it over to the State Controller.

SENATOR RHOADS:

The Governor has an audit staff. Do they use the same format as you? Do you coordinate with them to avoid duplication? Do we ever get the results of their audits?

MR. TOWNSEND:

We consider ourselves to be an external auditor and have no reporting responsibilities to the Executive Branch. We report to the Legislature. They use a different set of audit standards than do we. Because their audit is internal, it is more of a management function than ours. They present reports to the Executive Branch Audit Committee. I coordinate with them regularly to avoid duplication of effort. We frequently attend their meetings and get the results of their audits.

COCHAIR HORSFORD:

Please tell us about performance indicators.

STEPHEN M. WOOD (Chief Deputy Legislative Auditor, Audit Division, Legislative Counsel Bureau):

We did an audit several years ago on the State's performance measurement function and the way they are reported in the *Executive Budget* and presented to you. We found some weaknesses in the process and made several recommendations to help strengthen that. As we go through our current audits, we incorporate performance measures. Over the last two years, we noted several audits in which performance measures were deficient and made recommendations for corrective action.

We found performance measures for the Division of Parole and Probation to be ineffective and not properly prepared. Some of the program measures contained calculation errors. We made recommendations to help strengthen that process and the Division subsequently made improvements.

COCHAIR HORSFORD:

Please provide me with a report on that. Please bring to our attention any concerns or issues with the performance indicators or audit funding that have not been corrected.

MR. TOWNSEND:

We will work with the fiscal staff in any way we can to assist you.

Please refer to page 40 of ([Exhibit K](#)). We found the Division of Health Care Financing and Policy did not implement sufficient procedures to identify improper Medicaid payments. The most serious problems were in the area of fraud, abuse or noncompliance with established billing procedures. As a result of our review of certain high-risk Medicaid claims, we uncovered about \$19 million in overpayments and errors. Much of this focused around the claims being paid as a percentage of billed charges, as opposed to scheduled charges, particularly for services related to end-stage renal disease and dialysis claims.

We provided this information to the Medicaid Fraud Control Unit of the Attorney General's Office.

The six-month follow-up report was positive. The Division of Health Care Financing and Policy took action on our recommendations quickly and all but two of our recommendations have been fully implemented. Consequently, they have recovered about \$12 million of the overpayments.

On page 93 of [Exhibit K](#) are the results of our audit of the Division of Parole and Probation. We found they need to improve their case management practices for high-risk offenders. The Division has processes in place to maintain a caseload ratio of 30:1 for high-risk offenders and 45:1 for sex offenders. Nonetheless, they had not performed timely assessments on high-risk offenders. In addition, they did not perform all monthly personal contacts for these offenders and did not comply with employer notification requirements for certain sex offenders. Six months after this report was issued, they had implemented 17 of our 21 recommendations, and two more should be completed by now.

COCHAIR MATHEWS:

Have budget cuts affected staffing and thus the efficiency in the Division of Parole and Probation?

MR. TOWNSEND:

We are reaching a point where budget cuts are becoming more of an issue when agencies talk about their corrective action plans.

COCHAIR MATHEWS:

There being no further business to be heard before this Committee, we are adjourned at 10:40 a.m.

RESPECTFULLY SUBMITTED:

Michael Archer,
Committee Secretary

APPROVED BY:

Senator Bernice Mathews, Cochair

DATE: _____