MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON WAYS AND MEANS

Seventy-Seventh Session
March 4, 2013

The Assembly Committee on Ways and Means was called to order by Chair Maggie Carlton at 8:04 a.m. on Monday, March 4, 2013, in Room 3137 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. Copies of the exhibits are also available on the Nevada Legislature's website at nelis.leg.state.nv.us/77th2013, and 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).

COMMITTEE MEMBERS PRESENT:

Assemblywoman Maggie Carlton, Chair
Assemblyman William C. Horne, Vice Chair
Assemblyman Paul Anderson
Assemblyman David P. Bobzien
Assemblyman Andy Eisen
Assemblyman Tom Grady
Assemblyman John Hambrick
Assemblyman Cresent Hardy
Assemblyman Pat Hickey
Assemblyman Joseph M. Hogan
Assemblywoman Marilyn K. Kirkpatrick
Assemblyman Randy Kirner
Assemblyman Michael Sprinkle

COMMITTEE MEMBERS EXCUSED:

Assemblyman Paul Aizley
Assemblyman Steven Brooks
Assemblywoman Lucy Flores

STAFF MEMBERS PRESENT:

Cindy Jones, Assembly Fiscal Analyst

Michael J. Chapman, Principal Deputy Fiscal Analyst
Kristen Kolbe, Program Analyst
Connie Davis, Committee Secretary
Cynthia Wyett, Committee Assistant

The Committee Assistant called the roll, and a quorum of the members was present.

Chair Carlton reminded the Committee, witnesses, and audience members of the Committee rules and protocol. www.yahoo.com

Chair Carlton opened the hearing on the Office of the State Controller's budgets and asked the State Controller to provide an overview of her presentation.

ELECTED OFFICIALS
CONTROLLER'S OFFICE
CONTROLLER'S OFFICE (101-1130)
BUDGET PAGE ELECTED-234

ELECTED OFFICIALS
CONTROLLER'S OFFICE
DEBT RECOVERY ACCOUNT (101-1140)
BUDGET PAGE ELECTED-245

Kim R. Wallin, State Controller, Office of the State Controller, introduced Alex Echo, Information Technology Manager, Office of the State Controller.

Ms. Wallin began her presentation with the statement that the mission of the Office of the State Controller was to advance accountability, continuity, and efficiency of the state's financial operations.

Page 7 of the presentation (Exhibit C) reflected the following performance indicators:

- Total percentage of debts collected for Scope 1 [under $25,000] projected for fiscal year 2012 was 45 percent. The actual amount collected in fiscal year 2012 was 19 percent.

Ms. Wallin attributed the reduced percentage of collections in fiscal year 2012 to staffing shortages. She explained that the assistant controller position was eliminated in 2011 because of budget reductions, and another position from the same area was eliminated in a previous session. A staff of seven in 2007 was reduced to five in 2013, which Ms. Wallin said was one of the reasons the

Office could not use Treasury Offset Program (TOP) and financial data-matching tools.

- Percent of vendors that paid by Electronic Funds Transfer (EFT) was projected at 28 percent for fiscal year 2012, and the actual collection was 40 percent.

Ms. Wallin commented that the state saved $151,000 because of the percentage increase in EFT payments in fiscal year 2012.

In response to Chair Carlton's question concerning the transfer of funds, Ms. Wallin clarified that the EFT reference was a transfer from one account to another.

- Dollars saved by using state employees for information technology (IT) functions rather than contractors was projected at $475,000 in fiscal year 2012. The actual savings was $961,048 in fiscal year 2012. A savings of $920,000 was projected for fiscal year 2013.

Ms. Wallin commented that an in-house programmer earned about $85,000 a year including benefits compared with an outside contractor [according to the Division of Enterprise Information Technology Services' (EITS) schedule] whose salary could range from $125,000 a year to $250,000 a year. Ms. Wallin discussed additional savings that included $60,000 for in-house programming of a software file box, savings on annual maintenance costs, migration of the statewide accounting system to a new platform without outside consultants, and $135,000 a year because of an in-house database programmer.

Page 8 of the presentation included the following additional performance indicators:

- Total percentage of debts collected for Scope 2 (over $25,000). The projection for fiscal year 2012 was 25 percent, and the actual percentage collected was 3.75 percent.

Ms. Wallin explained that the Office had not yet collected a payment when the projection was placed in the budget. She acknowledged the current actual collection at 6.75 percent was low and attributed the lower-than-projected collection to the lack of an assistant controller.

- Number of Internal Revenue Service (IRS) 1099 forms rejected by the IRS (reflected accuracy of recorded data). Projections were for the 1099s issued only by the Office of the State Controller.

Ms. Wallin reported that in calendar year 2011, a third-party provider for Medicaid began incorrectly using the state taxpayer identification number (TIN) rather than its own. The IRS returned 151 forms, 120 of which the third-party provider issued compared with the return of only 31 forms issued by the Office of the State Controller. Ms. Wallin reported that Office staff had instructed the Division of Health Care Financing and Policy (DHCFP), Department of Health and Human Services' staff that Medicaid's third-party provider had to use its own TIN because the state would be fined a $100 for each 1099 form the IRS rejected. Additionally, she said, an incorrect TIN could subject the state to an audit.

Page 9 of the presentation reflected a summary of the Governor's recommended budget request. Ms. Wallin expressed agreement with the recommendations with the exception of the following decision units:

- Enhancement (E) 670 – Reduce Salary for 2013-2015 Biennium
- E-671 – Freeze Salary for FY 2014
- E-672 – Suspend Longevity for 2013-2015 Biennium

In reference to the exceptions, Ms. Wallin discussed the low morale state employees were currently experiencing and pointed out, for example, that decision unit E-671 would place employees hired in 2009 at the same grade level as employees hired in 2013. She also pointed out that employees who were at the top of their grade level would receive no pay increases because of the suspension of longevity payments for the 2013-2015 biennium. Ms. Wallin recommended that employees should at least receive a Cost of Living Adjustment (COLA).

Additionally, Ms. Wallin reported that the Office of the State Controller staff, in preparing for the Comprehensive Annual Financial Report (CAFR) after the close of fiscal year 2012, earned over 200 hours of overtime while assisting state agencies in closing their books. The Office also hired an independent contractor to work for the three months after the fiscal year ended.

Another problem Ms. Wallin discussed was the loss of state employees to retirement. In the Office of the State Controller, 28.21 percent of employees were eligible to retire in the next five years, and some, she said, were in the 25- to 30-year range, which made them eligible to retire at any time. In the next ten years, she said 84.62 percent of the employees in the Office of the State Controller would be eligible to retire, which she pointed out would effect a "serious" loss of skilled state workers especially in the area of financial reporting. The loss of those employees, she said could significantly increase financial reporting errors that would raise the state's bond rating and cost millions of dollars in additional interest.

Page 11 of the presentation provided information on decision unit E-227, an enhancement that requested $200,000 in fiscal year 2014 for the existing Debt Collection and Recovery System (DCARS). The enhancement would be funded through a transfer from budget account (BA) 101-1140, the Debt Recovery Account. Ms. Wallin explained that although the enhancement was approved in 2011, the Debt Recovery Account did not have enough money at that time for the transfer. The Account currently had the funding, and the Office planned to hire programmers at an average rate of $90 an hour through a Master Service Agreement (MSA) for approximately 2,200 hours of work and several thousand dollars for expenses. Improving collection efforts, she said, was a priority for the Office, and the enhancement would:

- Increase the collection of revenue by automatically extracting data from state agencies, cities, counties, and courts to the Office of the State Controller.

- Eliminate cutting and pasting into spreadsheets.

- Automate the debt-offset process at 60 days rather than 90 to 120 days, which would improve collections by 12.5 percent.

Page 12 of the presentation provided information on decision unit E-581, a funding request for $18,750 in fiscal year 2014, and $3,750 in fiscal year 2015 for eXtensible Business Reporting Language (XBRL) editing software. Ms. Wallin reported that the XBRL editor would allow the Office of the State Controller to create reports from the state's database for single audit reporting, which the agencies would share.

Ms. Wallin explained that each state agency currently performed a single audit of its federal funds and submitted a spreadsheet to the Office of the State Controller. The report submitted by the agencies included the dollar amount of each individual grant and grant expenditures, which the Controller's staff compiled into a master single-audit spreadsheet. The XBRL editing software would automate the process, eliminate state agency reporting errors, and provide the analytical work requested by state auditors. Ms. Wallin reported that the auditors had advised that without additional analytical work, audit fees would increase by $50,000.

Pages 14 through 21 of the presentation provided information on enhancements that were included in The Executive Budget. Enhancements (E) 711, 712, 713, 714, 715, 716, 717, and 718 requested funds to replace computer hardware per the EITS recommended replacement schedule.

The request for equipment included:

- Computer hardware.
- Hardware license/maintenance contracts.
- Ethernet port switches.
- Printers.
- Personal computers, laptops, monitors, and uninterruptible power supply devices.
- Power distribution units.
- Equipment racks.

Ms. Wallin commented that the Office of the State Controller, because of its accountants' 100-page spreadsheets for the Comprehensive Annual Financial Report and Debt Collection and Recovery System, was a "high-end user office" for computer replacement. Ms. Wallin explained that a "high-end user office" meant that the Office could replace computer hardware on a three-year cycle; however, in an effort to save money, the Office had gone to a five-year replacement cycle.

Additionally, Ms. Wallin commented that decision unit E-719 requested funding for the replacement of chairs. She reported that the Office of the State Controller had replaced only 8 chairs in the last 6 years and a total of 12 chairs in the last 14 years. Some of the chairs, she said, were replaced prior to 2007, when she took office, and were purchased used from a Harley-Davidson office that was remodeling its facility.

Page 31 of the presentation provided information on decision unit E-750, which requested the restoration of the assistant state controller position. Ms. Wallin reported that The Executive Budget recommended replacing the position and funding 85 percent of the cost with a transfer from the Debt Recovery Account and 15 percent from the General Fund. Ms. Wallin explained that the money in the Debt Recovery Account, created during the 2009 Legislative Session, was only to be used for the "support of the debt collection efforts of the State Controller," and that no other Debt Recovery staff members were paid from that account. She preferred that funding for the position be appropriated entirely from the General Fund. Ms. Wallin advised that she had been unable to reassign the debt collection duties after the position was eliminated but that she performed some of the duties as time permitted. She discussed the importance of the position whose responsibilities also included acting as the public information officer (PIO) and producing the Intergovernmental Financial Dependency Report [a report that sought to raise awareness of the rising national debt and the financial relationship between all levels of government]. Ms. Wallin reported that since the loss of the position, some duties and programs, such as the Treasury Offset Program and the financial data-matching program were no longer being done. Additionally, she pointed out an estimated loss of about $2.7 million in debt recovery collections since 2011.

Page 32 of the presentation provided information on decision unit E-889 that requested funding of $162,708 in fiscal year 2014 and $42,041 in fiscal year 2015 to allow the State Controller to create a computer-training laboratory to train all state users of the financial system. Ms. Wallin advised that the Governor did not recommend the computer-training laboratory in The Executive Budget. She explained that the laboratory, previously used by a number of agencies, was eliminated in 2010 when various agencies were combined. Ms. Wallin discussed her unsuccessful attempts to find a suitable training facility while using the Department of Administration's Division of Human Resource Management testing center. The testing center's partitions, she said, did not allow for easy access between the instructor and the students.

Ms. Wallin discussed the necessity of training state users before permitting them to use the state's Integrated Financial System and provided an example of a recently trained employee who wisely called the help desk before incorrectly entering data on an invoice twice. She explained that if the employee had entered the data twice, the system would have paid the vendor twice for an invoice that totaled over $30,000.

Ms. Wallin provided the following statistics:

- The laboratory would hold 20 students.
- Approximately 415 students a year were trained in 2008.
- The number of students had increased to 997 in 2012.
- The need for the Office of the State Controller was critical as it was for six other high-end user agencies and nine other agencies that would use the laboratory on a part-time basis.

If the funding was approved, Ms. Wallin suggested that the laboratory be placed under the direction of the EITS because its statewide technology group could maintain it and bill the agencies for its use.

Page 33 of the presentation provided information concerning the Governor's recommended budget request summary for the Office of the State Controller's Debt Recovery Account. Ms. Wallin reported that, as previously discussed, expenditures from the account could only be made for debt collection activities and that at the end of June 2012, the account held a total $287,251 with a current balance of $235,715. Ms. Wallin explained that revenue for the Debt Recovery Account resulted from a 2 percent administrative fee for collecting debt, interest income on installment payments, and a share of collections for money owed to agencies whose budgets were supported from the State General Fund. The Executive Budget, she said, recommended expenditures of $200,000 in fiscal year 2014 to upgrade the debt collection system (decision unit E-225), $163,529 for 85 percent of the funding for the assistant state controller position (decision unit E-750), and $2,500 in each year of the biennium for operating expenses.

Page 36 of the presentation provided information on a one-shot appropriation request for $470,397 in fiscal year 2013, $448,840 in fiscal year 2014 and $21,557 in fiscal year 2015 to replace obsolete servers that were over ten years old. Ms. Wallin reported that the Office of the State Controller needed new servers to support the state's financial reporting capabilities. She discussed the difficulty in securing parts for the ten-year-old servers and the possibility of securing a five-year-old surplus server from EITS, which would free funding for other needs. Ms. Wallin also advised that if the state's Integrated Financial System was replaced in five years, the new system would require new servers, and a five-year-old server from EITS could work until that time.

Pages 37 through 41 of the presentation included:

- Current Initiatives and Future Reporting Obligations
- State Controller Kim Wallin's Vision for the Future
- Ways to Save Money
- Appendix – I Item 1 – Probability of Collection and the Treasury Offset Program

Ms. Wallin pointed out that several states were using the TOP to recover unemployment insurance overpayments through income tax refunds. Nevada, she said, had over $200 million in unemployment overpayments and owed $700 million plus interest on loans from the federal government for unemployment claims that occurred during the economic recession. Collecting the $200 million in overpayments, she said, would reduce the state's federal unemployment loan expense.

Pages 43 through 51 of the presentation included detailed information that supported the need for a training facility.

Page 52 of the presentation provided a summary of the request to replace outdated servers.

Chair Carlton asked for additional information concerning the $200 million in unemployment compensation overpayments.

Ms. Wallin advised that auditors provided the information concerning the overpayments. The Department of Employment, Training and Rehabilitation (DETR), she said, had not yet turned its debts over to the State Controller for collection because they could not send the debts to outside collection agencies until written off by the federal government.

In response to Chair Carlton's request for the dates the overpayments took place, Ms. Wallin advised that it was within the last four or five years since the recession began.

In response to Chair Carlton's request for substantiation of the overpayments, Ms. Wallin advised that she would provide the information after the meeting.

Assemblywoman Kirkpatrick also expressed an interest in seeing substantiation of the overpayments. The Legislative Commission, of which she was a member, received quarterly reports from state agencies concerning debt collections, and she said she was unaware that DETR reported $200 million in overpayments.

Additionally, Assemblywoman Kirkpatrick asked why the State Controller had not approached the Interim Finance Committee to secure funding that would have restored the assistant controller's position during the 2011-13 biennium. As the former Chair of the Assembly Committee on Government Affairs, Assemblywoman Kirkpatrick recalled legislation in 2009 and 2011 to enhance the efficiency of the Office of the State Controller, but it appeared, she said, that the Office had not attained that goal.

Ms. Wallin advised that the assistant state controller, whose position was eliminated in 2011, had provided oversight for debt collection. She recalled being told during 2011 budget hearings that the position could be restored using money from the Debt Recovery Account. Ms. Wallin advised, however, that she could not request funding for the position from the Debt Recovery Account because state agencies, up to three years after the fact, asked for return of the money collected for the debt they had turned over to the State Controller. She advised that Senate Bill 21 included a provision that state agencies had to submit a written request to the Interim Finance Committee (IFC) asking for a determination of where the money collected should be deposited not later than 60 days after it was deposited in the Debt Recovery Account. Ms. Wallin advised that passage of S.B. 21 and IFC involvement should correct the problem.

Assemblywoman Kirkpatrick recalled that previous legislation included an administrative fee for collecting the debt, which she surmised could have paid for the assistant state controller position.

Ms. Wallin advised that there was not enough money in the Account to pay for the position and that the 2 percent fee was a compromise she had made with the previous Speaker. She indicated that the fee should have been 5 percent, but it was determined that Nevada citizens could not continually be assessed additional fees.

Assemblywoman Kirkpatrick indicated she could not recall a compromise made with the former Speaker and asked what would happen if S.B. 21 failed to pass.

Ms. Wallin advised that without passage of S.B. 21 and without oversight, state agencies could take money out of the Debt Recovery Account whenever they asked to do so. Ms. Wallin recalled recently collecting $1.5 million for the Nevada Division of Health Care Financing and Policy [Medicaid], which she believed belonged to the General Fund because the Office of the State Controller had taken the debt to write off so the federal government would not ask for its half. She said, however, that Division representatives advised that all of the money collected was going to the federal government although they had provided no documentation to date.

Assemblywoman Kirkpatrick said her understanding was that the Office of the State Controller wrote off old and uncollectable debt in 2009 and asked for a report to substantiate the debt was cleared.

Ms. Wallin agreed to provide a complete report. She further advised that not all state agencies were turning their debt over to the Office of the State Controller for collection. The Department of Taxation, she said, was one of the agencies that did not turn its debt over for collection. Ms. Wallin reported that the Department of Taxation had $216.5 million in receivables at the end of June 2012, of which $191 million was over 120 days old.

Assemblywoman Kirkpatrick asked to see a report from the State Controller because the quarterly report the Legislative Commission received did not include the information Ms. Wallin reported. Assemblywoman Kirkpatrick indicated she would call the Executive Director of the Department of Taxation to ask why the reports did not match and to have an open discussion about transparency.

In response to Chair Carlton's concerns regarding the collection of debts and the inability to fund the assistant state controller position, Ms. Wallin provided the following clarification of her previous testimony:

- The assistant state controller position was eliminated for budget purposes in 2011.

- In 2009, Assembly Bill No. 87 of the 75th Session (2009) passed, which required state agencies to turn their debts over to the Office of the State Controller for collection.

- The Office of the State Controller sent letters to agencies that were not in compliance.

- If there was no response to the letters, agency representatives had to meet with the State Controller or the assistant state controller.

- After the elimination of the assistant state controller position, the State Controller could not meet with the many representatives of noncompliant agencies.

- The State Controller could not fund the assistant controller position from the Debt Recovery Account because the agencies requested money collected to be returned to them up to 3 years after the fact.

- Senate Bill 21 would require agencies to submit a written request to the IFC asking for a determination of where the money should be deposited not later than 60 days after it was deposited in the Debt Recovery Account.

Assemblywoman Kirkpatrick noted, however, that the Office could not use funds from the Debt Recovery Account for staff.

Ms. Wallin confirmed that legislation passed in 2009 did not allow funds from the Debt Recovery Account to fund positions. However, the legislation passed in 2011 that eliminated the assistant state controller position approved the position to remain in the unclassified pay bill [Senate Bill No. 505 of the 76th Session (2011)], which allowed the Office to ask the IFC to restore the position using debt collection funds.

Assemblyman Sprinkle noted that the funding request for editing software would eliminate most of the data entry currently required of state agencies for the Single Audit Report Form (SARF) [E-581, BA 101-1130] and asked how the state would benefit from further automating the SARF.

In response to Assemblyman Sprinkle, Ms. Wallin advised that the "the 2011 Legislature approved $50,000 for a SARF XBRL technology solution to eliminate most data entry required by state agencies and to address control issues related to balancing and reconciling the SARF reports with information from the state's accounting system." The enhancement, she said, would eliminate errors in the SARF as well as auditing fees of $50,000 or more. She explained that without the enhancement, errors in the SARF would increase the chances of Nevada becoming a high-risk state subject to additional federal government audits.

In response to Assemblyman Kirner's question concerning servers, Ms. Wallin advised that the State Controller was responsible for the statewide accounting system, and the servers that ran the statewide accounting system remained in the Office of the State Controller. She explained, however, that by the time the Office was ready to replace the Integrated Financial System, she was hopeful that EITS would host the Office's servers.

In response to Assemblyman Kirner's question concerning the request for a training laboratory, Ms. Wallin clarified that the 20-station laboratory would serve all state agencies.

Assemblyman Kirner asked whether the State Controller could use the Legislative Counsel Bureau's (LCB) computer training laboratory.

Ms. Wallin said that if the Office did not receive the funding for a training laboratory, they could use the LCB facility when not in use by the legislators and legislative staff and "limp along" with the Division of Human Resource Management testing facility, although the situation was not ideal.

Assemblyman Eisen asked for the names of the other agencies that would be using the training laboratory. Additionally, he asked for a breakdown of the total funding request for the Office of the State Controller and the other state agencies that would use the facility, the costs currently paid for training, and the costs to train employees using an outside facility.

Ms. Wallin responded that she would provide the cost information to contract with an outside training center after the meeting. The other agencies that would use the training laboratory included the:

- Purchasing Division, Department of Administration

- Division of Human Resource Management, Department of Administration
- Department of Education
- Department of Motor Vehicles (DMV)
- Nevada State Library and Archives, Department of Administration
- Department of Employment, Training and Rehabilitation (DETR)

Agencies that would use the training laboratory less frequently included the:

- Department of Business and Industry
- Division of Mortgage Lending, Department of Business and Industry
- Risk Management Division, Department of Administration
- Department of Health and Human Services
- Aging and Disability Services Division, Department of Health and Human Services
- Department of Transportation
- Office of the Attorney General
- Office of the Secretary of State
- Division of Health Care Financing and Policy, Department of Health and Human Services

Ms. Wallin discussed some of the problems connected with using the Division of Human Resource Management [Personnel] testing facility. One problem she said was that although the Division was under the Department of Administration, the Office's technology staff spent a lot of time responding to the facility's computer problems. Additionally, she advised that the Office of the State Controller currently used the facility full time once a week, and the other agency users spent about the same amount of time at the facility.

Assemblyman Eisen asked for a consolidation of information that included a list of agencies, an estimate of the time each agency would spend in the training laboratory, total time spent using the laboratory, current costs, and whether a new laboratory would provide cost savings.

Ms. Wallin reiterated that training all state users of the financial system prevented errors. She advised that it appeared many users were not attending training sessions, which the auditors had seen in the single audit.

Chair Carlton expressed concern about replacing an outdated server with a five-year old EITS surplus server and asked Ms. Wallin for more information on replacing the outdated server.

Ms. Wallin responded that she and the Office's data processing manager had not yet had the opportunity to discuss whether replacing the outdated server with a newer EITS surplus server was a viable option.

There were no additional questions from members of the Committee.

Chair Carlton thanked Ms. Wallin for her presentation and said that she looked forward to seeing the information requested by the members of the Committee.

Chair Carlton closed the hearing on the Office of the State Controller and opened the hearing to public comment. Hearing no response to her request for public comment, Chair Carlton adjourned the meeting at 8:53 a.m.

RESPECTFULLY SUBMITTED:

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Connie Davis
Committee Secretary

APPROVED BY:

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Assemblywoman Maggie Carlton, Chair

DATE: _____________________________

EXHIBITS

Committee Name: Committee on Ways and Means

Date: March 4, 2013 **Time of Meeting: 8:04 a.m.**

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Kim R. Wallin, State Controller, Office of the State Controller	FY 2014 – FY 2015 Budget Presentation to the Senate Committee on Finance, Assembly Committee on Ways and Means, March 4, 2013