

**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON GOVERNMENT AFFAIRS**

**Seventy-Eighth Session
February 5, 2015**

The Committee on Government Affairs was called to order by Chairman John Ellison at 8:34 a.m. on Thursday, February 5, 2015, in Room 4100 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/App/NELIS/REL/78th2015. In addition, copies of the audio or video of the meeting may be purchased, for personal use only, through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

COMMITTEE MEMBERS PRESENT:

Assemblyman John Ellison, Chairman
Assemblyman John Moore, Vice Chairman
Assemblyman Richard Carrillo
Assemblywoman Victoria A. Dooling
Assemblyman Edgar Flores
Assemblywoman Amber Joiner
Assemblyman Harvey J. Munford
Assemblywoman Dina Neal
Assemblywoman Shelly M. Shelton
Assemblyman Stephen H. Silberkraus
Assemblywoman Ellen B. Spiegel
Assemblyman Lynn D. Stewart
Assemblyman Glenn E. Trowbridge
Assemblywoman Melissa Woodbury

COMMITTEE MEMBERS ABSENT:

None

GUEST LEGISLATORS PRESENT:

None



STAFF MEMBERS PRESENT:

Jered McDonald, Committee Policy Analyst
Eileen O'Grady, Committee Counsel
Aubrie Bates, Committee Secretary
Cheryl Williams, Committee Assistant

OTHERS PRESENT:

Ron Knecht, State Controller, Office of the State Controller
Deborah L. Cook, Chief Deputy Controller, Office of the State Controller
James W. Smack, Assistant State Controller, Office of the
State Controller
Shawn Reid, Board Member, State Gaming Control Board
Kimberlee Tarter, Deputy Administrator, Purchasing Division, Department
of Administration

Chairman Ellison:

[Roll was called and rules and protocol were explained.] The first thing on the agenda today is a presentation by the Office of the State Controller.

Ron Knecht, State Controller, Office of the State Controller:

We are here to tell you briefly what we do. We will try to be very crisp, stick to the basic facts, and answer all of your questions.

Let me introduce the two people with me. Deborah Cook is the Chief Deputy Controller, who has graciously agreed to stay to train James Smack and me. James Smack is the Assistant State Controller. They are both doing a great job, as is the whole staff.

You have a copy of our presentation ([Exhibit C](#)). What does the State Controller do? The State Controller is Nevada's chief fiscal officer. As I explained many times during the campaign, the State Treasurer handles investment, and the State Controller takes care of everything else. The State Controller administers the state's accounting system and the 16-year-old Advantage System—you will hear a lot about that from us this session. It is doddering along and needs replacement. The Office of the State Controller processes and records the state's financial transactions and, therefore, we write the checks and make the deposits. We provide citizens, state agencies, local governments, and the Legislature with accurate and impartial financial information. We accept all the payments and chase down the bad debts for all state agencies. That is a real challenge. Finally, the State Controller protects the citizens' money by

ensuring that it is properly accounted for and spent in the most efficient and cost-effective manner.

The State Controller also sits on the Board of Directors of the Department of Transportation and is the Chairman of the Construction Working Group of that Board. The State Controller is a member—along with the State Treasurer, Governor, and other statewide, constitutionally elected officers—of the State Board of Finance. The State Controller is a member of the Executive Branch Audit Committee. It almost seems like a continuation of my eight years on the Nevada System of Higher Education Board of Regents, where I was on the Audit Committee for eight straight years, serving twice as the Chair.

The Office of the State Controller has 43 full-time employees; 40 of them are here in Carson City and 3 are in Las Vegas. We have four divisions: Financial Reporting, Debt Collection, Operations, and Information Technology. Because of her expertise, I will ask Deborah Cook to talk about each of those.

Deborah L. Cook, Chief Deputy Controller, Office of the State Controller:

I will start with the Financial Reporting Division. The sections within the Financial Reporting Division are accounting liaisons and report publishing. This division is responsible for tracking state revenues and expenditures. They prepare most of our financial reports. They prepare the Comprehensive Annual Financial Report (CAFR), the Citizen Centric Annual Financial Report, which is a high-level overview of the CAFR more accessible to the general public, and the Permanent School Fund Quarterly Financial Statements. This section also provides accounting assistance and direction to state agencies when necessary.

We move on to the Debt Collection Division. This division has collection activities and reconciliation and reporting of those collections. They are responsible for collecting all unpaid debts for all state agencies. State agencies will transfer their debt to us after approximately 60 days of trying to collect debts in-house. They manage the outside collection agencies. They make sure the collection agencies are working the debt, collecting the proper amount, and remitting payments back to the state. This is also the section Mr. Knecht mentioned that prints the payables checks to the state and provides a depositing service for state agencies that do not have direct access to the bank account.

The Operations Division has several sections. They have agency services, which does the data entry of interagency journal vouchers. It is the section that takes care of garnishments for state agencies. It is also our customer service area. They answer the phones for the Office of the State Controller.

The Advantage administration is where we have our business process analysts for the state accounting system. They make sure the security is in place for that system and take care of access issues.

We have a financial help desk for the accounting system. This division provides training on the state's accounting system, the data warehouse, and the Vista reporting system. That person also manages the state training facility.

Vendor services is the staff that is located in our Las Vegas office. They register all the vendors with the state and ensure all their tax information is there for reporting to the Internal Revenue Service.

We also have office accounting, which is basically all of the accounting functions for our office—payroll, purchasing, and accounts payable. They are also responsible for the schedule of expenditures of federal awards. Basically, that is where we report the federal receipts and expenditures of the state to the federal government. They also work with the Cash Management Improvement Act Agreement, which is the agreement between the federal government and our state on how we will draw down federal funds. On the backside of that, we have an agreement with the major programs and state agencies as to how they will draw down those funds. We also do the interest calculations for the Cash Management Improvement Act. That ties into how we draw down the funds and how fast we spend them. Those calculations are based on whether we owe the federal government interest at the end of the year, or if they owe us money.

Moving on to the Information Technology Division, the sections within this division are operations (our database administration), programming (they keep the state's accounting system running), technical analysis and research (for the systems of the Office of the State Controller), and technical services (which involves our networks, server maintenance, and things like that). They are responsible for administering the state's accounting system, the training facility system, and the State Controller's technical support.

Ron Knecht:

We will turn to current initiatives. As an introduction, let me say that the morning after the Inauguration when we held our first managers' meeting with Deborah Cook, James Smack, five others, and myself, I started out by emphasizing two things: continuity and staff morale. I have had the good fortune to have inherited a well-functioning organization with a staff that has such a reputation that one reporter even told me, "You have a good staff, competent people, and the office operates reasonably well. Don't mess it up." We are trying not to do that; we are trying to make some particular

improvements. In fact, some of the improvements we will be talking about this year are ones that my predecessor proposed. We adopted her proposed budget, her bill draft requests (BDR), et cetera.

The first is the debt collection system, which really is not integrated into our information technology system yet. It is manual, cumbersome, and workbook- or spreadsheet-based. What we need to do is give those good folks, who are doing so well, the tools they need to focus on debt collection instead of data management. We will have some bills before you on that matter. I solicit your support.

The other one, and this is really the big picture thing, is business intelligence and data analytics. We have a system that is about to no longer be supported by the vendors, so if we do not get a replacement—which the Governor has recommended—for the business intelligence and data analysis systems, the Office of the State Controller and other state agencies could be crippled in a lot of operations. If and when we do get it, we will be able to provide a lot more data and analysis: real-time data, drilled-down data, multidimensional data. We will bring the State of Nevada into the twenty-first century in business intelligence and data analytics.

The second thing is business process reengineering. This is an initiative that is prior to and required for the Enterprise Resource Planning and Information Technology (ERPIT) system replacement. The best way to explain it is with an example: Right now, if you have an account payable, somebody has to write a check, cause a check to be written, or cause an electronic funds transfer. With the new ERPIT systems, you can automate that process. Essentially, the new ERPIT system will spit out a message to a few people that says, "Per usual and per the requirements of the given contract, we will make the electronic funds transfer tomorrow." The beauty of that is you are reducing the amount of human time involved, which has led to high staffing levels and high costs. You also do something else there. By automating that when the contract is set, you have a system where the bill is paid at exactly the right time. It is paid the day before or the day of the due date so that you do not incur the 1.5 to 2 percent late fee penalty. It is paid no earlier so that you do get the value of the interest of that money while it is in our bank account. That is just a simple example. We will be working with the Budget Division of the Department of Administration and managing the business process reengineering initiative, which they will be bringing in the *Executive Budget*. As we do that, we will move toward the replacement of that 16-year-old, decrepit Advantage Enterprise information technology system.

Those are our current major initiatives. I know it sounds pretty nerdy, but it is the nature of state business. It is the nature of the Office of the State Controller. In fact, when I ran, some of you may have heard me say that I am just nerd enough to do the job. I hope that is true, and I hope to validate that for you.

Next, I will talk about our future vision. Apart from continuing excellence and good staff morale, we are going to have ongoing outreach to citizens with the Nevada Controller's Monthly Report. The first one was posted within the first month, on Friday. The second is about improved efficiency and effectiveness in state government. This is the payoff from the investment the state will need to make in the next few years on business process reengineering and the replacement of the ERPIT system.

Finally, sticking to the accounting nuts and bolts, we have to meet new challenges per Government Accounting Standards Board (GASB) Statement No. 68—an awful thing you will hear about in financial reporting that the GASB continues to promulgate. Statement No. 68 involves integration of the Public Employees' Retirement System reporting with the rest of the state reporting.

I am committed to consistency and excellence in the day-to-day operation of the Office of the State Controller. We have an outstanding team that should make all Nevada taxpayers proud. I thank you. We are available for your questions.

Chairman Ellison:

Thank you very much. Are there any questions from the Committee?

Assemblyman Moore:

I would like to commend you on your active participation on the Governor's proposed budget, your willingness to step forward, and your dedication to ensuring that the folks in our state are taken care of. Thank you.

Ron Knecht:

Assemblyman Moore, thank you. That is part of what we do, but we do not let that get in the way of the nuts and bolts and day-to-day business. We make sure we get both done.

Assemblywoman Dooling:

I have a couple of questions. How much bad debt is there right now? After the 60 days, when the debt is turned over to the Office of the State Controller, how quickly have you been able to collect it?

Ron Knecht:

As the Assistant State Controller, and soon-to-be Chief Deputy Controller, James Smack is working on overseeing and improving the bad debt. By the way, you all should sympathize with him because he will be interning down there, spending an hour to an hour-and-a-half per day working with data entry and all of the other functions. Mr. Smack, will you answer that?

James W. Smack, Assistant State Controller, Office of the State Controller:

Thank you for the opportunity to present our bills today and to make our presentation. As far as the bad debt goes, through the current process we are bringing all the state agencies in line to getting their debt to us after they have had it for 60 days. That is still a work in progress. Much of the debt we are getting in the Office of the State Controller at this point in time is the older debt that some agencies had not been passing on to us. Some of this debt can be anywhere between 5 and 20 years old; it is some pretty old debt. Overall, at the end of fiscal year 2014, which is the latest number I have, the debt total for the state for approximately 80 agencies is \$93 million.

Assemblywoman Dooling:

We could use that, could we not?

James Smack:

Yes, we certainly could. Again, there are some agencies that have a couple of debts, a couple hundred dollars here and there. Other agencies, like the Department of Taxation and the Department of Motor Vehicles, have a much larger number.

Assemblyman Munford:

I know it is a part of your responsibility, but it may be a more appropriate question for the State Treasurer. What is the status of the Governor Guinn Millennium Scholarship Program? Does the Office of the State Controller have something to do with that? I think you do, though not directly; the Office of the State Treasurer has more to do with it. I, and maybe some of the new legislators here, would like a little education on the status of that.

Ron Knecht:

The Office of the State Controller does the accounting for the scholarship. The Office of the State Treasurer actually runs that, so I would respectfully ask that you ask them about the detailed status. If you would like, we can make a point of finding out any particular information that you would like; however, that is really a function of the Office of the State Treasurer.

Chairman Ellison:

This Committee will call upon you to testify in some future hearings. We will be asking for your expertise on some of these issues.

Ron Knecht:

Chairman Ellison, we are grateful for the opportunity and happy to help you in any way we can. Thank you.

Chairman Ellison:

Are there any other questions?

Assemblyman Flores:

You mentioned that in 2014 there was \$93 million that could be collected. How much of that was actually collected?

James Smack:

Our collection in 2014 was around \$600,000. The year before, fiscal year 2013, it was around \$1.5 million. Again, a lot of it is aged debt. The average age of the debt we received in fiscal year 2014 was around 683 days. I do not have the exact figure; however, I can get that to you. It was in the two-year ballpark.

The new system that we are integrating to go online on March 30 will automate the debt collection system. It will produce the debt collection letters. It is going to make that office much more efficient. The contractor we are working with is projecting that our debt collection will go up \$2.2 million in the first year, and up to \$7.2 million in the second year, just by implementing an automated system. The contract is a performance-based contract, so we have had to pay nothing to get the system going. It will be paid for at the end with our collection revenues.

Assemblyman Flores:

How much money comes from the state to the Office of the State Controller?

Ron Knecht:

We have a budget request of about \$8 million, but that is higher than it would be otherwise for our 43 employees and continuing operations because \$1.8 million of that is for the replacement of the business intelligence system, the vendors' support for which expires soon. We have an ongoing budget of about \$6 million.

Assemblyman Flores:

My mind is running because \$8 million goes in, but we are only collecting \$600,000 in debt; obviously, that is frightening. It makes me wonder how the money was used. I know you are new to this as well, but I am curious.

Ron Knecht:

I share your concern there. The \$8 million, or the \$6 million, overall is not dedicated to debt collection. A much smaller portion, something akin to the \$600,000 to \$1.3 million, is dedicated to debt collection. It is probably less than \$600,000. We are trying to make sure that debt collection becomes a profit center for the state. The rest of that budget for 43 people covers all of the other functions we talked about.

James Smack:

Our debt collection staff currently stands at 4 out of the 43 people. We will say it is five people since we are currently hiring for a fifth position. That is a very small portion of that \$6 million budget. Debt collection—even collecting \$600,000—does pay for itself, but we can absolutely do better.

Ron Knecht:

We feel a fiduciary obligation to the people of Nevada, and to you, to raise the collection rate. We are working diligently toward that. That is one of the metrics that I discuss every two weeks with my management team.

Assemblywoman Spiegel:

Your presentation has been enlightening. Looking at the \$93 million that is delinquent, and some of which goes back 20 years, does that include everything that is over 60 days old? At what point do you deem it uncollectable? If you have a \$1 million debt that is 20 years old for a corporation that has not been in business for 10 years, and there are no assets, and you cannot go back to the principals, at what point is that written off?

James Smack:

Right now, I do not want to write off any of it, because I would like to put that through the new debt collection system. The new debt collection system is going to give us new updated addresses, social security numbers, business licenses, and other information which might bring some of the older debt back into collectability. As far as the overall process of writing off the debt, we are going to discuss some of that today with Assembly Bill 14. We are streamlining those processes. I do not want to have our department write off anything until we run it through that new system, because there may be some things that our

new system will be able to develop and catch that will allow us the opportunity to have another chance at collecting that debt.

Assemblywoman Spiegel:

Do you have aging reports about how old the debt is and how much is there? If you do, could you share a copy?

James Smack:

We certainly do. I can forward that to your office, and the Chairman's office, as well. They are on Excel spreadsheets, so I will warn you in advance. They are a little bit tedious.

Chairman Ellison:

If there is no more comment, we will open the hearing for Assembly Bill 14.

Assembly Bill 14: Makes requirements for management of bad debts consistent among all agencies of the Executive Branch of the State Government. (BDR 18-457)

James W. Smack, Assistant Controller, Office of the State Controller:

Assembly Bill 14 was filed by our predecessor; however, we think the bill does have plenty of merit. We are in full support of the bill. The bill is basically designed to bring all state agencies in line with how all bad debt is written off. Right now, most of the state agencies submit their debt to the Office of the State Controller. If it is deemed uncollectable by the Office of the State Controller due to impractical or impossible reasons, we bring those debts to the State Board of Examiners to be written off.

Currently, two state agencies are exempted from that process—the State Gaming Control Board and the Division of Industrial Relations of the Department of Business and Industry. I have spoken to Steve George, the Division Administrator from the Division of Industrial Relations, and Bruce Breslow, the Director of the Department of Business and Industry, and they are both fully in support of this bill. They believe that we do need to have a single debt collection system and a single way of managing our bad debt and how we will write it off.

Just to clarify, because we write off a bad debt on the books does not mean we cannot go after that collection down the road. If someone decides to send a check on bad debt, we are not going to refuse it. We are going to take that check and we will get that money back to the agency to which it is owed. It is strictly an accounting thing that if we think there is a strong chance we will not

be able to collect on the debt, as Assemblywoman Spiegel mentioned, then this will come into play.

We do anticipate an amendment ([Exhibit D](#)) from the State Gaming Control Board that will change some of the language of the bill. The Office of the State Controller had a conversation with the State Gaming Control Board, and we are comfortable with accepting the language of the amendment as well.

The primary purpose of this bill is consistency. That is one of the things State Controller Knecht and I have been talking about since he took office. We want to make things as consistent as possible. The new debt collection system is going to make things more consistent. We are going to have one consistent process that we use to collect debt throughout the state. How we will process and manage that debt and when we send that debt off to outside collection agencies will be a consistent process. This is also going to improve upon that process of consistency because we will have one consistent way to write off the bad debt throughout the state.

Assemblywoman Neal:

What portion of the process is under Open Meeting Law or public inspection? Is there any part of the process that is accessible to the public?

Ron Knecht:

I do not think so. James Smack may have something to add or correct on that. However, it is also something we can talk to our Deputy Attorney General about and make sure we are in compliance. If we need any particular Open Meeting Law process, we will be happy to honor those requirements. I have been living with that for 12 years now in state government, and I think it is important.

Assemblywoman Neal:

In section 4 of the bill, when you request that the State Board of Examiners designates such an amount as a bad debt, can you walk me through the steps?

Ron Knecht:

The State Board of Examiners is subject to full Open Meeting Law requirements—publication in advance, hearings, et cetera. At that point, these things become subject to that.

Assemblywoman Neal:

If the Open Meeting Law requirements of *Nevada Revised Statutes* (NRS) Chapter 463, in which you are trying to change the language from "may" to "shall," were being challenged or dealt with in a different bill, would there be an

effect where the State Board of Examiners would not be able to review things under NRS Chapter 463?

Ron Knecht:

I think I am back in law school. I would have to look at the particulars of that bill. However, I would know enough to rely on my lawyer. I would call Jennifer Chisel, our Deputy Attorney General, and ask her to advise me on that and give me an answer.

James Smack:

Right now, we are in the process of refining our bad debt write-off process. Again, until we have our new system online on March 30, we are not going to know how much of this may end up being collectable again if we can get updated addresses or attach social security numbers to give us some more collection ammo. We also have additional bills that are going to streamline the garnishment process and do things like that. Until we know exactly what is going to happen in the 120-day session, it is hard for me to sit here right now and tell you exactly how that process is going to look.

However, I will tell you this: The process is going to be consistent and it is going to be something we apply equivalently to debt throughout the state. I am looking forward to having the new system online to get another shot at some of this stuff because the bottom line is we want this money in the General Fund and in these agencies for the State of Nevada. The more of it we can collect, the better off it is for all of us.

Assemblyman Ellison:

How many people do you think are out there who may be deceased and still owe money to the state? How much of the debt is uncollectable that we can finally get off the books so we actually know a real number of collectable debt?

James Smack:

Chairman Ellison, I am hoping to have a better idea of that number once that system comes online. It is going to take everything off the Excel spreadsheets and put it into an automated system where we will be able to put it through a process to identify social security numbers, business license numbers, or accurate addresses. Will there be some uncollectable debt? I am sure there are some people who have owed money to the State of Nevada for 20 or more years and are probably no longer with us. I cannot begin to estimate what that number is, although I have to believe that there is going to be some. In that case, yes, that would definitely qualify as bad debt and would be part of the streamlining process to take it out of the system and write it off as bad debt.

That is going to be a part of the overall process and is a part of the consistency that I have been talking about.

Assemblyman Stewart:

The new system comes into play on March 30, 2015. Is that correct?

James Smack:

Yes, that is correct.

Assemblyman Stewart:

Do you expect to have any kind of report to us sometime around the end of May 2015, after two months of it being in effect, so that we can see how effective the new system is?

James Smack:

If you are asking for such a report, I am sure I can get something to you, Assemblyman Stewart.

Assemblyman Stewart:

Just a brief one, so we can know before we leave how effective it is.

James Smack:

The beauty of the new debt collection system is I should be able to push a couple of buttons to generate just about any report that I want, as opposed to having a pile of spreadsheets and trying to figure it out from there.

Assemblyman Stewart:

Do you collect any kind of fee on the debt collected for the work of your office, or is that taken out of your budget?

James Smack:

Actually, any debt that comes into the Office of the State Controller has a 2 percent flat fee added to the debt itself. Also, if we keep that debt in-house, we are able to collect a fee on top of that, as opposed to what the fee would be for the collection agency. Right now, that fee is 5 percent below the lowest collection agency fee. Does the Office of the State Controller generate some sort of revenue, for lack of a better term? Yes, we do. Obviously, with the numbers we have been collecting recently, it is not a substantial number. However, we are hoping to increase that number going forward. The vision is to have the debt collection office able to pay for itself down the road. That is not something I can say would be happening during this biennium. It may be a couple of biennia down the road. That would be one less thing we would have to worry about budgeting out of the General Fund.

That is a future vision, not something that I anticipate we will be able to do within two months of putting the system online.

Assemblyman Stewart:

Would that be a flat fee or a percentage of what you collected?

James Smack:

It is a percentage of the collection. There is actually a bill draft request (BDR) that I have submitted to the Chairman that will streamline the overall fee for the debt we collect in-house. The fees from outside collection agencies are contracted every four years. I think the lowest fee right now is about 12 percent. Our lowest fee is a little below 12 percent, so the fee we collect on any in-house debt is, I believe, 6.375 percent.

Ron Knecht:

Assemblyman Stewart, the bigger part of your question is this: Is the Office of the State Controller properly incentivized to aggressively chase these things down and to make cost-effective decisions on when to fish and when to cut bait? In general the answer is, yes, we are. We have the necessary incentives. With the bill that James Smack just mentioned, we will have a better and more efficient system that way. As you can tell from his remarks, he is enthusiastic about collecting those debts.

Assemblyman Trowbridge:

Along the same lines of trying to make the debt collection system self-sufficient, the state is not the only organization that has bad debt. Is there any possibility that this bad debt collection system could be made available to Nevada businesses that have bad debts?

James Smack:

It is not something we are anticipating making available for private industry at this point in time. I do not anticipate a time down the road when we would be. However, we may make it available to help our counties collect on some of their bad debts, such as property taxes. It is just a matter of getting the system in place before we can see what it is capable of doing. We will start addressing that \$93 million elephant in the room before we start looking at pressing this out to the counties or possibly rolling it out for private enterprise. There may be some things in NRS that need to be addressed before we could ever look at rolling it out for private enterprise. However, I appreciate your thinking. That is a great idea and that could be something that could be used as a revenue generator down the road. This is still a project in its infancy. I am really looking to examine the capabilities of this project and what we are able to do to put a dent in the money that is owed to the state first.

Assemblyman Stewart:

I appreciate that. Let us walk before we try to run. I just wanted to plant a seed.

Ron Knecht:

While I agreed with everything that James Smack just said, it is also something that I would have to check on with our Deputy Attorney General to find out what the constraints might be.

Assemblyman Carrillo:

I know that in past sessions, an employee was added to the Office of the State Controller for the purpose of trying to collect bad debt. I wanted to know where that staff was added and if anything had come of that. What has been collected for this last fiscal year? Is there any way you can tell if adding that employee has helped? It seems that if we add people, we are expected to garner so much, but what is the difference if we add technology?

Ron Knecht:

We will contact your office to give you specific information on the effects of that. I think the bigger question is about the mix of people and technology. We are trying to get that right to minimize the cost and maximize effectiveness. Deborah Cook may have something to add to that.

Deborah L. Cook, Chief Deputy Controller, Office of the State Controller:

The Assistant State Controller position was reinstated last session; I believe that is what you are talking about. It was, at that time, committing about 80 percent of its time to debt collection. Whether State Controller Knecht continues with that is still to be discussed.

One of the problems we faced during the last biennium was that the position was difficult to fill because it was unclassified, and the State Controller at the time was terming out on January 1. We did have the position filled during that time, and that person did contribute to the debt collection. We would have to look at whether or not we can establish exactly what was contributed dollarwise.

Assemblyman Carrillo:

Will you be able to get the numbers regarding how much debt was collected by that individual?

Deborah Cook:

Yes, we can get a report to you.

Assemblyman Carrillo:

In sections 1 and 4 of the bill, how often is the Office of the State Controller finding that debt is impossible or impractical to collect? It seems as if the \$50 or less amounts are a big issue. Is the Office of the State Controller having the due diligence to make sure that money is being collected?

James Smack:

We are trying to get continuity in that process. As far as our due diligence and collectability are concerned, we will get a better handle on that once we have the new system online and can look at how the process will evolve.

I think the process we are using today is not consistent, so we are working to make that a consistent process. If a debt reaches a certain age and we have not had a response upon multiple attempts to collect, we are getting returned mail, or are not able to identify a business license, social security number, or updated address, the new system will be able to provide that information. Until we really develop that program, all this bill is really addressing is bringing every state agency into the same line. All we are doing is bringing the State Gaming Control Board and the Division of Industrial Relations in line with every other agency in the state so we can make one report to the Board of Examiners as to what we want to write off and make our case as to why. The Board of Examiners at that time can make a decision on a case-by-case basis. They can take it on a line-item basis, for that matter, and say they will write off one thing, but not another. All we think we can do is provide the consistency in how we provide that for the Board of Examiners. What the Board of Examiners does with it at that point in time, we cannot address.

All we are doing with Assembly Bill 14 is addressing consistency. We will have future bills that are really going to dive into the whole debt collection process and talk about developing the overall consistency with the new software program with the department. That is what we are trying to bring to the table, that consistency. This is just a small piece of the puzzle.

Chairman Ellison:

Is there a specific piece of this bill that you would like to address?

James Smack:

The main thing is that we will be able to meet the direction of bad debt removal and record keeping prescribed in section 4, subsections 3 and 4. In other words, we are prepared to do this in the Office of the State Controller, preparing this report and keeping record of the bad debt. Put into place with the new debt collection system is a way to keep track of those bad debts in case we get a Merry Christmas check out of the sky to pay off a debt we wrote

off. We are able to bring that debt back out of being written off and return that money to the appropriate agency.

Assemblyman Flores:

Pertaining to the new system, is there anyone else in the state, or is there a controller from another state, who has used it so that we can understand how it will benefit Nevada?

James Smack:

There are five other states using similar systems that are being designed by the vendor who designed our system. All of those states, including our friends to the west, are using a similar system and have seen an overall improvement in debt collection. From my understanding, the state to our immediate west was able to take a system that was completely on paper, change it over to the automated system, and was able to increase their debt collection severalfold.

I have the graphs and statistics for the five states. I can forward those to your office.

Assemblyman Silberkraus:

I know the old software is no longer being serviced. Do we have a guarantee for how long this new one will be serviced?

James Smack:

I believe we are confusing systems. The system we are referring to that will no longer be serviced is part of our budget request. It is a business intelligence system. It is not something I work much with; I am pretty immersed in the debt collection system. The debt collection system we are using is really replacing an Excel-based spreadsheet and automating the system. The business intelligence system is a different animal altogether. It is replacing Oracle Discover, which is no longer going to be supported by Oracle. This is a different issue altogether than what we are bringing up for Assembly Bill 14.

Ron Knecht:

The essence of your question is, what does the future look like when we make these changes and investments? All of these systems have a life cycle. You get new technology; now you have cloud technology replacing server-based technology, et cetera. The things that Oracle developed in the 1990s are running out in the next few years, and this is true with everyone else in the business. We do not know how long it will last. However, generally, even after they move to a new technology, the various vendors continue to service these programs for a while because they get revenues from doing so. They will want to migrate you to the newest system and provide continuing

support. We are not worried given that it will be 10 to 15 years out, and the technology continues to evolve. We will be doing new things then.

The reason we have a problem statewide is the Enterprise Resource Planning Information Technology (ERPIT) system is 16 years old, and vendor support will run out in the next few years. That is something that is on our minds. However, as we go into a new system for debt collection, that is pretty distant. You will all be term-limited by that time.

Assemblyman Silberkraus:

I just wanted to make sure it had a good lifespan. Thank you.

Assemblyman Moore:

This debt is now at \$93 million. Is that correct?

James Smack:

The \$93 million was the closing number for fiscal year 2014. We are right in that ballpark.

Assemblyman Moore:

This debt was obviously accumulating over a considerable amount of time. Was it just not addressed, or was it ignored by previous sessions?

James Smack:

Until recently, the statutory requirement for having to turn debt over to the Office of the State Controller after 60 days did not exist. When that requirement came into place, a lot of agencies gave us everything they had, whether it was 60 days, 60 months, or 15 years old. We were collecting on that debt, but the number kept getting higher because we were getting a lot of older debt we were unable to collect on. Again, with the new system, I want to have another opportunity to collect it and to return the money to the state.

Assemblyman Moore:

I appreciate that. It is just interesting to me that this debt has accumulated over time and no one has previously thought to look at it, whether it was in your department or another.

James Smack:

I disagree with that. It is something that has been in the process of being looked at. There have been different changes in NRS. However, as far as taking a bona fide look at improving the overall software program and collections system, what our vendor brought to us was a performance-based contract. They are giving us a \$1.8 million system, and we are paying them

back out of the fees on the debt we collect in the future. Therefore, the state is out nothing for this system. We are going to have to start paying the contractor back for the system, but that is over time. What we have been able to do is look at the performance of the system for five other states and negotiate a performance-based contract. As long as we are meeting the objectives of that performance-based contract, if the debt collection system that is designed falls on its face, we are out nothing.

Assemblyman Moore:

I do not mean to insinuate that your agency was negligent in any way. My question is more about whether this debt was known or reported somewhere?

Ron Knecht:

It was known and it was not known. Part of the problem is the technology we have been using is manual, burdensome, and spreadsheet- or workbook-based. It was hard to get that information all in one place and make good use of it. Secondly, as James Smack pointed out, it is only recently that all of these debt amounts have been forwarded to the Office of the State Controller. The \$93 million is really a one-time effect. It is the effect of an accumulation of different things. We are trying to move forward and see what we can make of that in terms of revenue collection, get it off the books, and take care of things.

Assemblywoman Shelton:

Regarding the amendment ([Exhibit D](#)) for section 4 of Assembly Bill 14, it looks as if the amendment just changes "Commission" to "Board." You had said that the State Gaming Control Board is going to be adding another amendment. Is this the amendment, or is there going to be another amendment?

James Smack:

The amendment ([Exhibit D](#)) you see in front of you is the amendment that the State Gaming Control Board is bringing. They will be discussing that here momentarily.

Assemblywoman Spiegel:

In section 1, subsection 2 of the bill, it talks about writing off debts of less than \$50. How was \$50 determined as the cutoff? It would seem to me that even at that low dollar amount, the collection costs might exceed the value you are getting back.

James Smack:

As this bill was written and sponsored by the previous State Controller, I really cannot speak to where that amount came from. However, as far as the Office of the State Controller is concerned, if the Committee feels that number needs to be amended, I am personally agnostic to the number. The overall goal here is to get consistency. I do not see why it would be a problem with our office to amend that number.

Assemblywoman Spiegel:

I was not necessarily advocating that. I was just curious about the basis for the number. I do understand that you do not know. I am not sure that is the right number, but I also do not have the tools to make any kind of recommendation.

James Smack:

This number is in line with a lot of private industry practices, too. I know that, in my experience at a major banking corporation in the private sector before coming to this office, our number was \$60. We did not take action or send out to a collection agency on any debt less than \$60, because we recognized that expense was not worth the cost. The \$50 number is just a number that we could write off without going before the State Board of Examiners. Again, why should we be spending the State Board of Examiners' time on looking at a bunch of \$45 debts? It really is a matter of opportunity cost there. It is in line with what private industry does, so I am not uncomfortable with that number.

Chairman Ellison:

That is why we have our good legal staff here. Eileen O'Grady?

Eileen O'Grady, Committee Counsel:

It is consistent with the current amount in NRS 353C.220, which is the value of the debt that the State Controller asked the State Board of Examiners to write off. It is consistent for these two agencies, as well.

Chairman Ellison:

Are there any more questions? [There were none.] We will ask for anyone else in support of Assembly Bill 14 to come forward.

Shawn Reid, Board Member, State Gaming Control Board:

I am one of the three board members of the State Gaming Control Board. To my left is Frank Streshley, the Chief of the Board's Tax and License Division. The Tax and License Division is the division of the Board that is tasked with collecting taxes and fees for the gaming industry.

Chairman Ellison, we are here to support this bill.

As the Office of the State Controller indicated and Assemblywoman Shelton alluded to, there is an amendment to section 4 that we have proposed ([Exhibit D](#)). Since the State Gaming Control Board and its Tax and License Division are the ones charged with collecting the information regarding bad debts, we are just proposing language that cleans that up. Instead of the "Nevada Gaming Commission" reporting to the "Board of Examiners," it is the State of Gaming Control Board that would do that. We added "State Board of Examiners" so that there would not be any confusion with the State Gaming Control Board being called "Board."

Chairman Ellison, to give a brief overview of our collection activities at the State Gaming Control Board, we have a very high collection rate of taxes—over 99 percent. Our uncollected taxes sent to the Office of the State Controller were a mere \$7,000 out of about \$888 million collected.

We have offered this amendment, and I welcome the Committee to ask any questions you may have.

Assemblywoman Neal:

I know you have this amendment as well as another bill, Assembly Bill 40, which changes the name to "Nevada State Gaming Control Board." Will you have to come back to change your name in this bill if Assembly Bill 40 passes?

Shawn Reid:

I do not believe so, because in this bill and in this section, "Board" is referred to as the "Nevada Gaming Control Board." I am not sure. You are correct, the official name in the past has been State Gaming Control Board, and that bill is proposing to change it to Nevada Gaming Control Board.

Chairman Ellison:

We cannot discuss the other bill at this time. Are there any other questions? [There were none.] Thank you very much. Is there anyone else wishing to testify in support of Assembly Bill 14? [There was no one.] Is anyone wishing to testify in opposition to Assembly Bill 14? [There was no one.] Is anyone wishing to testify as neutral to Assembly Bill 14? [There was no one.] Mr. Knecht, please give a closing statement.

Ron Knecht:

I think we have answered all of the questions; I think Mr. Smack has done a good job of convincing everyone of the soundness and appropriateness of this bill. However, I did want to reflect on something important that Shawn Reid said that puts all of this in context, especially the \$93 million balance. They collect 99 percent of their debts. What they send to us are the

incorrigibles. They are the really bad debts. The \$93 million that we are talking about is not a cross section of all debts owed to the state. It is the really hard cases. That is why we have, and will continue to have, fairly low recovery rates.

With that I will solicit your favorable action on this bill. I greatly appreciate the opportunity to appear here this morning and answer your questions.

Chairman Ellison:

We will close the hearing on Assembly Bill 14. We will now open the hearing for Assembly Bill 24.

Assembly Bill 24: Authorizes payroll offsets to recover delinquent balances on state-issued travel charge cards. (BDR 23-458)

Ron Knecht, State Controller, Office of the State Controller:

We are here to represent the Office of the State Controller. Since he is so immersed in debt collection, I am going to turn it over to James Smack.

James W. Smack, Assistant Controller, Office of the State Controller:

Assembly Bill 24 is pretty straightforward. It is a bill that allows for a mechanism to collect on cash advance travel expenses through a payroll deduction if these expenses are not paid back to the state in a timely manner. This is really for the extreme cases. It is not going to be something where if you charge something on your state charge card we are going to be immediately taking it out of your paycheck. It gives us a mechanism in the event that the normal processes of going to the manager of a state employee and telling them it needs to be paid back do not work. It is our last resort. It is not something that is going to be used very often. The only time that I think it will really be important to have this in effect is when a state employee is leaving the employ of the state and still owes money to us on a state travel card, be that for cash advances, personal travel, milk and eggs, or what have you. If an employee owes that money on a state card, we have a mechanism through this bill to be able to collect that money, which is not in existence now.

The amendment ([Exhibit E](#)) for Assembly Bill 24 is something that I sent at the 11th hour last night after talking to the Purchasing Division of the Department of Administration. It cleans up the language about charge-offs and adding charge-offs without paying the issuer of the credit card since that can change. That way the employee is paying back the State of Nevada.

The Office of the State Controller feels that this is a common-sense bill. It provides the state a mechanism for collecting on unpaid debt incurred by employees that it should have had all along.

Assemblywoman Spiegel:

I have a question about the process. I have a background in credit cards; I spent five years at American Express working in customer service and collections operations. I also spent time at CitiBank and CitiCorp doing similar kinds of things.

I think normally when employees have credit cards or charge cards, they are responsible to pay the credit card company directly. When these accounts go into arrears, is the state then paying the credit card company to maintain the state's credit rating? Is that why the payments would go to the State of Nevada? I am just wondering how that works.

James Smack:

We have Kimberlee Tarter from the Purchasing Division, who will have a better answer for that question. They were the ones who asked us to bring the bill.

Kimberlee Tarter, Deputy Administrator, Purchasing Division, Department of Administration:

With respect to how the state is made whole, the process for an individual who has a state-sponsored travel card and has allowed that card to go into arrears and become delinquent is that the card becomes a charge-off once it hits 121 days of delinquency. When it becomes a charge-off, part of the state's program provides a rebate. On an annual basis, the state receives a rebate based on a certain number of basis points tied to file return days and the amount spent. That formula provides a refund to the state. If we have an employee who goes into a charge-off status, that charge-off is then offset by the rebate. For example, with random numbers, if the rebate was going to be \$100,000 and we had \$10,000 in charge-offs, we would get a \$90,000 rebate. That is why in the bill, the language says the money will come back to the state, because we are, in fact, going to make the state whole.

Chairman Ellison:

Would this include active employees or ex-employees? Do you take a collection so they can pay the debt over time?

Kimberlee Tarter:

The program is only available to active employees of the state. At the time they terminate, their cards are collected, and their accounts are closed. I would guess that in the event that someone did have a charge-off and the state did do

a garnishment, they could make arrangements with the state to pay that off at a later date.

Chairman Ellison:

Are there any questions from the Committee?

Assemblyman Carrillo:

How much of a problem has this been? Can you give exact dollar amounts from the past fiscal year?

Kimberley Tarter:

I do not have the exact numbers. I can tell you that we typically have one to three charge-offs annually. The dollar amount range, to give an example from one of our smaller years, can be approximately \$3,000. During one of our larger years, it went up to \$15,000. Out of that, we currently have approximately 1,200 individual travel cards out with state employees.

Assemblyman Moore:

I am somewhat familiar with travel cards. In the military, we had travel cards. However, if someone were to fall behind 31 days into arrears, there was a tight system in place that would account for and recoup the money. You mentioned that after 120 days it would become a charge-off. Why does the state allow it to go to 120 days? Is there a tighter time limit on that?

Kimberlee Tarter:

There are controls in place; you are correct. Each state agency that allows its employees to have individual travel cards has a travel program administrator. That administrator does have access to those individual accounts and can look to ensure they are being paid in a timely manner. Through their policies and procedures, they can pursue that and work with the employee to ensure they are paid. However, there have been instances, and this goes back several years, where we have had employees who have terminated their relationship with the state and charged all of their travel expenses to move to the East Coast on the state-sponsored card before the state could get the card back and close the account. Those are the types of situations that we want to be able to pursue. Again, those numbers are not particularly large, but they do occur. This would give us a means that we do not currently have.

Chairman Ellison:

Are there any more questions from the Committee? [There were none.] Is anyone else wishing to testify in support of Assembly Bill 24? [There was no one.] Does anyone wish to testify in opposition to Assembly Bill 24?

[There was no one.] Does anyone wish to testify as neutral to Assembly Bill 24? [There was no one.]

Mr. Knecht, please provide a follow-up.

Ron Knecht:

We earnestly solicit your quick passage of our bills. Thank you.

Chairman Ellison:

We are going to try to have work sessions every Friday. We will close the hearing on Assembly Bill 24. Is there any public comment? [There was none.] The meeting is adjourned [at 9:57 a.m.].

RESPECTFULLY SUBMITTED:

Aubrie Bates
Committee Secretary

APPROVED BY:

Assemblyman John Ellison, Chairman

DATE: _____

EXHIBITS

Committee Name: Committee on Government Affairs

Date: February 5, 2015

Time of Meeting: 8:34 a.m.

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Attendance Roster
	C	Office of the State Controller	Presentation on the Office of the State Controller
A.B. 14	D	State Gaming Control Board	Proposed Amendment to A.B. 14 from the State Gaming Control Board
A.B. 24	E	Office of the State Controller	Proposed Amendment to A.B. 24 from the Office of the State Controller