MINUTES OF THE
LEGISLATIVE COMMITTEE FOR THE
FUNDAMENTAL REVIEW OF THE BASE BUDGETS OF STATE AGENCIES
(Nevada Revised Statutes 218.5382)
June 26, 2000

A meeting of the Committee for the Fundamental Review of the Base Budgets of State Agencies (created through passage of A.B. 194, 1995) was held at 9:30 a.m. on Monday, June 26, 2000 in Room 2134 of the Nevada Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4401 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Exhibit A is the Meeting Notice and Agenda; Exhibit B is the Attendance Record; and Exhibit C is the Meeting Packet. Original copies of exhibits are on file with the Legislative Counsel Bureau Research Library.

COMMITTEE MEMBERS PRESENT IN CARSON CITY:

Senator Dean A. Rhoads, Chairman
Assemblyman John W. Marvel

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Senator Joseph M. Neal, Jr.
Senator William R. O'Donnell
Assemblyman Morse Arberry, Jr.
Assemblyman David R. Parks

LEGISATIVE COUNSEL BUREAU STAFF:

Brian Burke, Senior Program Analyst
Rick Combs, Program Analyst
Bob Guernsey, Principal Deputy Fiscal Analyst
Mark Krmpotic, Program Analyst
Mary Matheus, Program Analyst
Dan Miles, Senate Fiscal Analyst
Jim Rodriguez, Program Analyst
Georgia Rohrs, Program Analyst
Mark Stevens, Assembly Fiscal Analyst
Carla Watson, Program Analyst
Ginny Wiswell, Program Analyst
Jo Rasey, Secretary

Chairman Rhoads announced a forum was not yet present and stated the Committee would proceed with hearing testimony.

Department of Education – Education Support Services (BA 101-2720)

Georgia J. Rohrs, Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, stated that at the May 31, 2000 Base Budget Review meeting the Committee reviewed a report prepared by the Legislative Counsel Bureau (LCB) on the Education Support Services budget account. Education Support Services provides administrative services which are then paid as indirect costs by other Department of Education (DOE) budgets. As a result of that report, questions from the Committee, and the Department's response, staff identified seven primary recommendations related to the Education Support Services budget account.

The first recommendation, Ms. Rohrs said, is based on a need for the Department to update its performance indicators which currently do not adequately describe the work of Support Services staff. Representatives from the Department state they will include at least one auditing performance indicator in the budget for the next biennium in response to a letter of intent, and they will revise the existing performance indicators after the next Legislative Session. Staff recommends the Committee direct the Department to develop performance-based output and outcome performance indicators linked to the Department's goals and strategies to more accurately measure the effectiveness and efficiency of Support Services staff. This should be completed as soon as possible.

The second recommendation, Ms. Rohrs said, relates to revenues. Revenues in the Support Services budget account depend entirely upon charges made against other budget accounts for services such as auditing, accounting, personnel transactions, and clerical functions. Revenues are extremely difficult to predict. They depend not only on grant amounts but also upon actual monies spent and upon the rates the Department charges other budget accounts. The rates the Department charges are negotiated each year with the United States Department of Education. The Department uses journal vouchers to collect indirect costs from other budget accounts. Journal vouchers are not prepared regularly and should be monitored more closely. Expenditures exceeded revenues in this budget account without detection for seven weeks.

Another concern is the Department's practice of paying indirect cost charges of budget accounts and being overspent and unable to pay from other budget accounts. There might be nothing inherently wrong with this practice but from a budgetary standpoint, work programs should be used to transfer funds, not simply journal vouchers. That would be a better, cleaner accounting method, would provide tracking, and would more accurately categorize actual costs of a given program. Staff recommends the Committee direct the Department to develop procedures to carefully monitor the timing of transfers into the Support Services budget account to ensure compliance with NRS 353.260. Monitoring would have prevented the seven weeks of continuous negative cash balances in the third and fourth quarters of the fiscal year. Staff recommends the Committee direct the Department to utilize work programs, where appropriate, to transfer funds from one budget account, or budget category, to another budget account, or category, and to annually produce a reconciliation report to better account for funds in the Support Services budget.

Recommendation three, Ms. Rohrs continued, results from the Department paying out-of-state travel claims from the Support Services budget for employees not in Support Services. It is unacceptable to reimburse individuals for out-of-state travel from another budget account. Staff recommends the Committee direct the Department to establish a provision within its travel policy for payment of associated travel claims in those instances where a direct correlation exists between the employee's responsibilities and the out-of-state travel.

The next recommendation, Ms. Rohrs said, relates to training costs currently in the operating expenses category. The Department provides tuition reimbursement for employees who successfully complete courses related to their jobs. Tuition reimbursement is charged to operating expenses, dues and registrations. It would be more appropriate to establish a separate category 30 – Training – for those costs in order to segregate training costs, in part to keep them from being included in the base budget. This would be consistent with other agencies. Staff recommends the Committee encourage the Department to create, within the next budget cycle, category 30 – Training – in order to segregate and identify training costs.

Ms. Rohrs said recommendation five relates to SB 555 passed during the 1999 Legislative Session. SB 555 requires the Department conduct an annual audit of the enrollment count and the data related to class size reduction in grades 1, 2 and 3 for each school district. In addition, it requires the Department review the annual audit report and the annual report for each school district. School districts that fail to comply with any statutes or regulations, or those that experience financial conditions as set forth in the Act, are to be reported to the State Board and to the Legislative Commission on Education. Prior to the May 31, 2000 Committee meeting, the Department provided to staff a schedule of audits for the current year. Those documents do not satisfy the requirements of SB 555. For example, many school district audits were listed as scheduled, but there was no indication the audits were completed or even started in some instances. Since the Department has not demonstrated it has met the requirements of SB 555, staff recommends the Committee direct the Department to continue its efforts to increase its audit activity to ensure compliance with the statutory requirements of SB 555.

A letter of intent from the 1997 Legislative Session urged the Department to provide training to school business officials. SB 555 requires the Department provide training to the financial officers of school districts. The 1999 Legislature also issued a letter of intent directing the Department to provide semiannual reports to the Legislative Committee on Education and to the Interim Finance Committee on assistance offered to local school districts in financial matters and training provided to school business officials. No reports have been submitted by the Department in response to that letter of intent. Staff recommends the Committee reinforce to the Department the importance of submitting semiannual reports to the Legislative Committee on Education and to the Interim Finance Committee on assistance offered to local school districts in financial matters and training provided to school business officials pursuant to SB 555 and the letter of intent.

Despite the Department having no out-of-state travel budget, it approved per diem, public transportation, personal vehicle, and commercial air travel claims for out-of-state travel. Staff recommends the Committee remind the Department to follow the legislative intent regarding expenditures, especially out-of-state travel and information systems.

The Department of Education has not produced an employee training policy. An employee training policy needs to be developed and implemented to ensure auditors have current information on audit requirements and responsibilities in conducting governmental audits. Department auditors typically are not CPAs and newly hired auditors may not have sufficient formal training in auditing procedures. Staff recommends the Committee direct the Department to develop and implement a training policy for its auditors.

Ms. Rohrs continued, saying the sixth recommendation relates to category 26 - Information Services. Because many of the computers used by Support Services staff were purchased from other budget accounts, it is impossible to determine when and from where replacement computers should be purchased. If all hardware and software purchases for Support Services staff were charged to this budget account, information services costs could be tracked. Planning and budgeting for computer replacement purchases would be much easier and more efficient. Staff suggests the Committee recommend all hardware and software be purchased from and contained within the Support Services budget account rather than switching computers throughout the agency without an overall plan.

The final recommendation, Ms. Rohrs concluded, addresses reserves. It is very difficult to predict a reserve amount in the Support Services budget. This budget account is supported solely by indirect costs charged to and collected from other department budgets. The amount charged each budget account depends upon the rate negotiated annually with the United States Department of Education, the level of funding, and the actual program expenditures. In addition, actual expenditures within the Support Services budget account impact the amount available for reserves. The Department represents it is comfortable with a projected reserve of $50,000. Staff is concerned this figure is too low. Wide fluctuations in the Department's revenue projections over the last several years reflect the volatility of indirect cost collections. The Department indicates it will request additional staff during the interim. Staff's primary concern centers on the volatility of revenues and projections within the budget account. Any formal request for additional staff, therefore, will be scrutinized very closely. Staff suggests the Committee recommend the Department continue to work with the Budget and Fiscal Analysis Divisions to establish budget parameters to maintain an adequate reserve level.

Chairman Rhoads thanked Ms. Rohrs for her presentation and asked the Secretary to call the roll. He declared a quorum present and officially called the meeting to order at 9:50 a.m.

Dan Miles, Senate Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, stated Doug Thunder, Deputy Superintendent of the Department of Education, had asked that clarification be made on page 18 of the May 31, 2000 meeting minutes. The third paragraph from the bottom discusses the two indirect cost rates. That paragraph states, "Mr. Thunder said percents worked out approximately the same when considering the 12.7 percent rate the NDE paid for renting the facilities." Mr. Thunder, he said, suggests that in order to make it clear, the minutes be changed to read, "Mr. Thunder said the percents worked out approximately the same when considering the 12.7 percent rate together with paying the rent directly." Mr. Miles explained that under the lower indirect cost rate they also pay the rental cost whereas in the higher percentage rate they do not pay the rental cost directly.

Mr. Marvel moved to amend and approve the minutes of the May 31, 2000 meeting. The motion was seconded by Mr. Parks and carried unanimously by voice vote.

Mary Peterson, Superintendent of Public Instruction, Department of Education, referred to a summary of the legislation passed in 1999 and action taken by the Department of Education. She said over 60 pieces of legislation were passed during the 1999 Legislative Session that dealt with K-12 education. Ms. Rohrs, she said, correctly identified one item in SB 555 that the Department had not completed as of the date of this audit, as well as one letter of intent to which the Department had not responded. Ms. Peterson assured the Committee the Department has completed the audits. Many of the audits to which Ms. Rohrs referred were audits of smaller school districts. Those audits were conducted in May after Ms. Rohrs had conducted her review. In reference to the letter of intent dealing with training financial officers in school districts, Ms. Peterson reported the Department had held meetings with financial officers in the school districts approximately every six weeks and had provided training at all those meetings. The Department has not yet provided a follow-up letter to the Committee outlining exactly what it has accomplished. She assured the Committee Ms. Rohrs was correct in identifying those areas; however, the work has been completed.

Mr. Marvel asked if the Department had any comment on the staff recommendation regarding reserves.

Doug Thunder, Deputy Superintendent, Administrative and Fiscal Services, Department of Education, reported that the Department of Education has worked with the Budget Office to explore the possibility of appropriating money directly into that budget account in lieu of taking General Fund money through journal vouchers to alleviate some of the cash flow problems. That, he said, would help the negative situation as well. The Department will need to verify that solution is possible with the negotiator the Department works with in Washington, D.C. In response to a question from Mr. Marvel, Mr. Thunder said he personally feels it is possible.

Mr. Marvel asked how long the Department usually operates in a deficit situation. Mr. Thunder responded it is not unusual at the beginning of the year because balancing funds forward would cause that deficit situation. Payroll costs can cause a negative situation. When it is in a negative situation, no expenditures are allowed in any other category. That period of time could perhaps have been shortened by a couple of weeks but the State Controller's office is usually behind in entering journal vouchers into the system and that causes a greater delay than it otherwise would.

Mr. Thunder explained that SB 555 had been passed at the end of the 1999 Legislative Session. There were four or five administrative-type inclusions in that bill that neither the Department nor the Legislature had an opportunity to review. If the bill had been reviewed, the Department would have realized it would need additional staffing to accomplish all that was being asked in the bill. The Department should have been asked if its staff was adequate to accomplish all that was being asked of it.

Ms. Peterson presented for the Committee the "Legislative Summary 1999" (Exhibit D) that outlined actions the Department had taken on over 60 pieces of legislation. She also provided for the Committee the "Department of Education Audit Monitoring/Review Schedule" (Exhibit E). She stated audits have been conducted in all school districts as well as in numerous charter schools. Exhibit E, she said, would give the Committee additional information on what has been accomplished in response to the requirements of SB 555 and to the letter of intent.

Mr. Thunder wanted to clarify the perception that the Department had performed a great deal of out-of-state travel that it should not have. That finding, he said, involved approximately $100 to send four employees to Crystal Bay, across the State line. That had been done because the budget account of those individuals had not contained out-of-state travel and the retreat to which they attended was in the interest of the entire Department.

Mr. Marvel asked how much additional staff Mr. Thunder thought the Department would require as a result of SB 555. In response, Mr. Thunder said SB 555 has effects beyond just that particular budget account. When that is taken into account along with the charter school legislation, the Department will certainly require additional help. He stated he did not have an exact number, but believes four or five additional employees would be required throughout the Department. That, he said, would be built into the enhancement or an "M" series as a caseload need.

Mr. Marvel moved to adopt staff recommendations. The motion was seconded by Mr. Parks and carried unanimously by voice vote.

Department of Human Resources – Mental Health/Departmental Services Division, Nevada Mental Health Institute, Community Residential Programs (BA 101-3162)

Bob Guernsey, Principal Deputy Fiscal Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, said the Committee had examined the Community Residential Programs operated by the Nevada Mental Health Institute at its April 11, 2000 meeting. At that time, the Committee raised a number of questions. The six recommendations presented here provide direction to the Agency to provide information to the 2001 Legislative Session and to develop potential improvements to their program.

The first recommendation, Mr. Guernsey said, involves the 10-bed Psychiatric Emergency Services (PES) Program. The 1999 Legislature funded the construction of a new 80-bed hospital at the Nevada Mental Health Institute that includes the additional 10-bed Psychiatric Emergency Services unit. The purpose of the unit is to divert clients prior to entering into an inpatient setting, thereby potentially reducing the number of clients requiring that level of hospitalization. This places them into a more appropriate setting at an earlier point in time. Staff recommends the Committee direct the Division to report to the 2001 Legislative Session what success the program has had in reducing the inpatient census and indicate how many clients have been referred to other, less restrictive, treatment settings. This 10-bed program currently operates in Building 7, a less than ideal setting. Some staffing adjustments will need to be made during the 2001 Legislative Session.

The second recommendation involving inpatient census and appropriate staffing levels is a follow-up to the prior recommendation, Mr. Guernsey stated. The Las Vegas Mental Health Center has operated the inpatient hospital staffed at a level to serve 79 clients even with the Clark County population growth. Prior to the 1999 Legislative Session, the institute had been staffed to serve 52 clients. With the implementation of the 10-bed PES, that number has been reduced to 50 clients. This area needs to be revisited during the 2001 Legislative Session to determine the success of the 10-bed PES program in reducing the census at the Institute, and potentially reducing the staffing level even more. The new hospital has 80 inpatient beds, 40 on each side. The appropriate staffing will range somewhere between 40 and 50 beds.

The third recommendation, Mr. Guernsey said, deals with medications. The 1997 and 1999 Legislative Sessions provided increased funding for newer and safer mediations. Those medications have fewer side effects but are extremely expensive. The Legislature issued a letter of intent directing the Division to periodically report to the Assembly Ways and Means and Senate Finance Committees on the success of those medications. The Las Vegas Mental Health Center, the Nevada Mental Health Institute, and the Rural Clinics each received increased funding for the newer medications. All three have had potential budget problems with the medications and have transferred money into the medication category. This fiscal year the Institute began operation with approximately $1 million allocated for medications and that amount has increased. The anticipated spending is approximately $1.7 million. That amount needs to be examined to ensure money is being managed appropriately. The Division indicates they are developing a report to evaluate the success of the program. The report will include a pre- and a post-treatment study of the success of the medications and their cost effectiveness. Staff recommends the Institute provide a report of their findings to the 2001 Legislative Session and that they take a detailed look at the medication budgets.

Mr. Marvel suggested it was perhaps premature to develop an evaluation, but he thought the rationale of the Legislature was that the improved medications would reduce institutionalizing individuals which might, in the long run, result in increased savings. In response, Mr. Guernsey replied it should result in increased institutional savings.

Michael Torvinen, Administrative Services Officer for the Mental Health/Developmental Services Division, said he believes there has been a deflection of patients from institutions as a result of the improved medications, both in terms of longer tenure in the community and because clients are better able to support themselves in the long run. That has led to a reduction in institutionalization, a limiting of staff, and prevention of staffing growth at the hospitals. That adds to increased cost in community services such as rent subsidies. Over time, however, those costs are reduced by each client as they became more self-sufficient. The program works the way it is intended to work.

Mr. Marvel asked how long it would take before savings are realized. Mr. Torvinen responded savings had been realized in hospitals because staffing has not increased in several years. Mr. Marvel interjected that he agrees with what the Institute is doing but said it would have to begin to see some results. Mr. Torvinen stated there has been increased utilization of community-based services, but those are the more cost-effective and more inexpensive services. It is much cheaper per day to support someone in the community, he said.

The fourth recommendation, Mr. Guernsey continued, involves revenue collection activities. The Audit Division of the LCB audited revenue collection activities of the Institute and the Institute was waiting results of that audit. The Institute is funded over 83 percent by the General Fund appropriation. There is room for improvement in the revenue collection operation by employing additional staff, reallocating current staff, or reallocating duties to gather sufficient revenue to offset costs.

Mr. Marvel asked when the LCB audit report would be completed. Mr. Torvinen replied the exit conference with the auditors had not yet been held. There had been preliminary finding meetings but the draft report had not been issued. Chairman Rhoads asked if the audit report would be completed before session resumes. Mr. Torvinen replied he believes the completion of the audit is targeted for sometime in the fall. If that time were backed up ten days to prepare a response to the audit, he estimates the report would not be completed before session resumes.

Part of the problem the Division experiences in the revenue collection area, Mr. Guernsey said, is a result of the Advanced Information Management System (AIMS), their computer system. The system was implemented at the Las Vegas Mental Health Center and then transferred to the Rural Clinics and the Institute. It performs well when tracking clients but when it deals with billings and accounts receivables. The Division needs to examine the AIMS system, develop improvements, or look for another adequate billing system.

Mr. Marvel asked what amount of accounts receivable the Division currently carries. Mr. Torvinen responded the Division reports regularly to the State Controller, but he did not have an exact figure. There are problems with the AIMS reports that indicate large amounts that obviously are not collectable. The Division has entered into a process to generate that information manually. The Division is comfortable with the large dollar revenue amounts due from Medicaid and Medicare. The area where problems exist is with third party payers such as insurance companies. The Division is required by statute to assess a client's ability to pay and then apply a sliding fee schedule to that client. The computer system in one agency will assess the full fee before the Division determines the client's ability to pay. If there is no, or very limited, ability to pay, the fee that should be assessed is far less than that generated by the computer. Therefore, a large, uncollectable receivable is reported.

Mr. Marvel asked how those large, uncollectable receivables are written off. In response, Mr. Torvinen said it is a management decision and is entered into the computer. In fact, those receivables are never collectable. One of his concerns, he said, is creating a bill that is totally uncollectable. It comes as a shock to clients when they receive such a large bill.

Mr. Marvel asked if the computer calculates the sliding fee schedule. It is a matter of managing that in the beginning, Mr. Torvinen said, and there are differences of opinion as to what the legal requirements are. He again stressed he is totally opposed to creating a bill that is uncollectable when it is known to be uncollectable from the beginning. There might be some slight thing that has not taken place that people feel uncomfortable with as far as the statute is concerned and with establishing ability to pay. Mr. Torvinen said he really does not want to generate a receivable in the computer when there is no way to collect that receivable regardless of what action is taken.

Mr. Marvel indicated an audit report exists which lists receivables not yet collected and asked if that was part of the audit report. Mr. Torvinen responded he did not believe it was part of that audit report. He said that report focuses on the Department of Taxation and other agencies. The Division does not report on a regular basis to the State Controller's office. That office has instituted a process whereby the Division reports quarterly, but the Division dos not report the uncollectable billings. Mr. Torvinen said he did not know the uncollectable dollar amount. That dollar amount, he said, is uncollectable because it never should have been billed and it never should have been entered into the system. It is money that cannot be collected under any circumstance, no matter what effort is made. People simply do not have the ability to pay and they do not have insurance.

Continuing, Mr. Guernsey said the fifth recommendation involves the Program for Assertive Community Treatment (PACT). That program is designed to provide intensive services for 72 clients to be maintained in the community. Those are the more difficult clients who have failed in the past to function fully in the community. For a variety of reasons, the Institute has been unable to be staffed at a level to provide services to those 72 clients. At the time of the April 11, 2000 meeting, the Institute provided services to 56 clients. The Institute has made some position classification changes and has had some turnover so that number is probably below that now. The goal has been, and continues to be, to provide services to 72 clients. Staff recommends the Agency achieve that caseload level of 72 clients and if they cannot achieve that caseload level, explain why they cannot.

Dr. Harold Cook, Administrator for the Nevada Mental Health Institute, reported the good news is that two weeks prior to this meeting the lead position for the PACT program had been filled. It is the first time since the program has been funded that the position has been filled. Without that position it had been extremely difficult to provide the supervisory and management functions required to operate the program.

Chairman Rhoads asked why it had taken so long to fill the position. Dr. Cook responded part of the reason was the nature of the PACT program. The six staff employees are on call seven days a week, 24 hours a day. The lead position is a social worker. It had been difficult to find someone at that level with a stable career who was established in the profession to assume that level of responsibility. Dr. Cook said the individual is someone he is very comfortable with, and whom he worked with at Sierra Regional Center who has good ideas and the fortitude to bring the program to the level at which it should operate.

Mr. Guernsey said the final recommendation involves client employment programs. In order to maintain clients in the community the Institute operates a program that provides life skills to clients. Those skills include employment training and job preparation. The Institute interacts with the Bureau of Vocational Rehabilitation which, in the past, has been very helpful, and with the Employment Security Division. Staff recommends the Agency provide data detailing what they have accomplished, what resources are being used to secure client jobs, and an indication of how long clients are maintained in employment. Staff recommends the Agency report this information, as well as services provided by the Bureau of Vocational Rehabilitation, the Employment Security Division, and any other agencies used, to the 2001 Legislative Session.

Acknowledging that the Agency staff is maintained at six full time equivalent (FTE) positions, Mr. Parks asked what the current PACT caseload level is. Dr. Cook responded he did not have the exact caseload number. The Agency, he said, had recently been able to achieve the six FTE staffing level. He estimates the Agency is between 45 and 50 in terms of caseload. Several months ago when there had been extensive turnovers, the Agency transferred some PACT clients into other case management programs. Now that the Agency is at full staffing it will rapidly transfer those clients back to the PACT program and should be at a 1:12 ratio within the next month or two.

Mr. Guernsey clarified that the PACT program is allocated at 8.5 FTE positions and some of those are support positions. Dr. Cook, he said, referred to the direct service staff. Each staff member provides services to 12 clients.

Mr. Marvel moved to adopt staff recommendations. The motion was seconded by Senator O'Donnell and carried unanimously by voice vote.

<u>Department of Business and Industry – Financial Institutions</u> (BA 101-3835)

Carla Watson, Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, said the Financial Institutions Division licenses, supervises, and regulates state charted financial institutions which include both depository and non-depository institutions. The Division currently tracks inputs (the examination hours) and outputs (the number of completed examinations). However, the Division does not reflect outcome-based indicators, the outcome of the examinations. As indicated in the May 31, 2000 meeting before this Committee, the Division is very concerned about the confidentiality of the information for both the depository and the non-depository financial institutions. At Senator Rhoads' request, Ms. Watson said she had met with Commissioner Walshaw and the Budget Analyst, and all parties agree the Division could begin reflecting the formal actions taken against both depository and non-depository institutions. Any formal action initiated by the Division becomes a matter of public record; therefore, it should not be construed as divulging any confidential information. Staff recommends the Committee direct the Division to include outcome-based indicators for depository and non-depository financial institutions in the upcoming budget process. These outcome-based indicators should include the number of formal actions taken against both depository and non-depository institutions.

The second recommendation, Ms. Watson said, pertains to increasing the accuracy of projections for the number of examinations and examination hours. The report presented at the May 31, 2000 meeting reflects substantial variances between projected and actual examinations and examination hours. The Division indicates the variances are the result of a failure to anticipate "extraordinary" assignments that require extensive non-billable hours. The number of hours attributable to "extraordinary" assignments are reflected in a monthly report. A second component to the variance pertains to new hires. The Division indicates that in most cases new examiners' billable hours are shown at 50 percent to reflect their trainee status. In turn, those examiners reflect a lower number of billable hours. Ms. Watson reported the Commissioner indicated to her the trainee status hours are reflected in a weekly report. Staff recommends the Committee direct the Division to indicate the total examination hours shown at 50 percent in addition to the actual examination hours performed.

Ms. Watson stated the following for informational purposes only: During the meeting of May 31, 2000 before this Committee, the Division presented a handout titled "Examination Hours by Examiner for Fiscal Year 2000." The Commissioner intended to use that handout to demonstrate the Division had made an improvement in staffing ratios for the Las Vegas office after implementing a new tracking system. At that meeting, Assemblyman Marvel requested Ms. Watson review the document as it had not been included in the May 31, 2000 meeting packet. Ms. Watson stated she had reviewed the document and the Division appears to be on track in meeting its current ratio of 1:1,000 (1,000 examination hours per each examiner position). She reminded the Committee the Division testified during the May 31, 2000 meeting that they will not hire any of the four newly approved examiner positions in Fiscal Year 2001 until refinement of the staff workload indicators is complete.

Continuing, Ms. Watson said the Division receives a loan from the General Fund and that loan is repaid over the course of the fiscal year. The Division is the only state agency with this unique arrangement. They have the capability to become self-funded with what appears to be minimal disruptions to operations. The Division indicates they do not support this recommendation; they are satisfied with the current arrangement that allows them to have an ensured cash flow. They are required only to generate one billing near the end of the fiscal year as an assessment levied against depository institutions. If the Division were to become self-funded, there would be an increased level of accountability to monitor revenues and expenditures to ensure the Division has an adequate cash flow to cover needs. The Division needs to more closely monitor functions such as actual versus projected number of examination hours and examinations performed; the timeliness of billings; and the timeliness of receipts and the depositing of those receipts.

Ms. Watson listed the following impacts on the Division if it were to become self-funded:

- The impact legislatively would be minimal. Statuary and regulatory changes would be required to modify the method in which the Division is funded in order to adjust fee and billing due dates to ensure the Division would continue to have an adequate cash flow.

- The impact on financial institutions would be minimal. Billing cycles may need to be adjusted and the depository institutions may need to be billed more than once a year. However, billings against the depository institutions would still cover the actual costs of supervision and examinations performed by the Division.

- The impact on the Division would be minimal. Initially, the Division would need to determine an appropriate reserve amount. That amount would be loaned from the General Fund and repaid over the course of a predetermined number of years.

Mr. Marvel asked if examination fees are commensurate with the actual cost of the examinations. Ms. Watson responded the fees do cover the actual cost of the examinations.

Continuing, Ms. Watson said there would be no fiscal impact on the Division to generate multiple billings since there are only approximately 30 depository institutions.

The receivables would continue to be handled in the same manner as currently processed except document coding would change as deposits would be credited to a different account.

The workload of other administrative staff has not been evaluated to determine if other employees could assist in the multiple billings and in the increased level of monitoring that would occur. It appears it would not substantially increase workloads.

Ms. Watson emphasized that if the Division deemed additional resources would be necessary due to the increased level of accountability, justification for those additional resources would be included in the upcoming budget. If legislatively approved, the cost of those additional resources would be absorbed by the industries the Division regulates. Staff recommends the Committee direct the Division to become self-funded and to submit a proposal during the upcoming budget process.

Ms. Watson said hourly examination fees charged to non-depository institutions range from $30 to $50, depending on the type of financial institution examined. Those examination fees have not been evaluated for approximately 15 years and may not cover the Division's actual costs.

Mr. Marvel asked if examination fees assessed are commensurate with the actual cost to conduct the audit. Ms. Watson responded she is more concerned with the rate charged at $30 an hour than she is with the rate charged at $50 an hour. She reminded the Committee that she had testified during the May 31, 2000 meeting that examiners are a salary grade 35 and earn approximately $25 an hour. If the examination hourly fee is $30 an hour, incurred costs probably are not covered.

Continuing, Ms. Watson said license fees might need to be re-evaluated for reasonableness. The last time fees were adjusted for collection agencies and installment loan companies was during the 1981 Legislative Session. Staff recommends the Committee direct the Division to evaluate the reasonableness of examination fees based on actual costs incurred and to compare license fees for non-depository institutions with those required by other states.

The remaining five recommendations concern expenditures, which, Ms. Watson stated, are summarized in Table 1 on page 63 of the Meeting Packet. Expenditures for the four new examiner positions should be annualized in categories 01 (Personnel Services) and 03 (In State Travel). Those four new positions were hired on a staggered basis. The Division needs to exclude expenditures for office supplies attributable to one-time purchases for the new positions in category 04 (Operating). In addition, the Division needs to exclude expenditures attributable to a large one-time mailing. Category 30 (Training) might require an adjustment due to unavailability of training courses. The Division indicates training budgeted for Fiscal Year 2000 (sponsored by the Federal Deposit Insurance Corporation) will not be available until the fall of 2000 because the school is being completely revamped. Staff recommends the Committee direct the Division to execute these base budget adjustments for the upcoming budget process.

Scott Walshaw, Commissioner, Financial Institutions Division, Department of Business and Industry, wished to set the record straight and stated that when Ms. Watson referred to "examination fees," she referred to just those examination fees charged to non-depository institutions. Each individual type of license has its own hourly examination fee with the exception of banks, credit unions, savings and loans, and thrift and loans, which are all assessed on so many cents per thousand dollars of asset basis. The Division adjusts those fees that apply to the non-depository institutions.

Mr. Marvel asked how often the Division bills depository institutions and if the billings are performed in a timely manner that allows the Division to recover its funds. If not, the General Fund loses interest, he stated. Mr. Walshaw responded billings are performed in three different methods. Licensing fees are imposed as new licenses are issued and then imposed when the renewal date occurs. That occurs at the end of the calendar year, at the end of the fiscal year, or during the course of the year, depending upon the timing of the issuance of a new license.

Mr. Marvel asked the amount of the billings. Mr. Walshaw responded fees vary. For instance, credit unions pay approximately $3,000 a year; banks approximately $18,000; collection agencies approximately $16,000; and development capital corporations pay approximately $500 a year. Mortgage companies pay the largest amount, approximately $300,000 a year because more mortgage companies exist than any other type of licensee.

Mr. Marvel questioned if licenses are renewable on an annual basis. Yes, Mr. Walshaw responded. Fees are predictable and come due at the end of the calendar year or at the end of the fiscal year.

Mr. Marvel asked how many new institutions, in all categories, are licensed yearly. Mr. Walshaw responded that number varies greatly. There has been a great amount of banking activity in the last few years, both acquisitions and mergers, followed by a round of new bank applications. That is abnormal. The number of mortgage companies varies depending upon the population growth and the economic activity in the housing area. Currently, there are approximately 300 institutions and some licensees, and that figure fluctuates. Ten years ago there were approximately 100 licensees.

Mr. Marvel asked if more mortgage companies have come into existence given the growth seen in Las Vegas. Absolutely, Mr. Walshaw responded, and not just in new companies but in companies from out of state that want to establish locations in Nevada because it is a "hot market." There are very low entry barriers into the mortgage business. Companies establish offices in Nevada and then, if the housing market tightens up or starts to slow down, close offices and go elsewhere. Non-depository fees are billed on an ongoing basis throughout the year. That average fee is approximately $200,000 a fiscal year and depends on the number of institutions examined in any one period. For instance, if bank examinations are scheduled in one quarter and non-depository exams are not scheduled, those billings will not materialize in that quarter. They occur only as those examinations occur. The assessment, the largest part of the cost recovery of General Fund monies, occurs at the end of the fiscal year. That is done deliberately so that depository institutions that pay the assessment fees pay more or less for the cost of actual supervision and regulation as established by regulations and by the formula used to establish the amount of the billing. That formula must be disclosed to the various licensees during the course of the year.

Mr. Marvel asked if Mr. Walshaw has analyzed the recommendation to begin with a reserve and not the full General Fund funding, on a payback basis. Did Mr. Walshaw think the Institution could operate in that manner? In response, Mr. Walshaw said that obviously the capability exists to operate the way staff recommends. The concern is that the Division would go through extensive work to change everything when the system in place works very well, and has worked very well for approximately ten years. The downside is that the Division would go through the rule making process and start over again to establish the mechanism under which it would make the assessments. Having gone through that process the first time, Mr. Walshaw assured the Committee it is very difficult to get all parties to agree to a system that is equitable to everyone.

Mr. Marvel asked if Mr. Walshaw had discussed this with Kathalie Koche from the Budget Office. Yes, Mr. Walshaw responded. It is something the Division will look at but obviously, the concern is that the system currently works very well.

Senator Neal asked if confidentiality exists between Mr. Walshaw and the financial institutions to which the Legislature is not privileged. If it does, what is the legal basis for that confidentiality? In the case of the depository institutions, Mr. Walshaw responded that the Legislative Auditors informed him they were not even to look at the results of the examinations because that information would become part of their work papers that, in turn, would become part of the public record. That information is strictly confidential. In fact, he said, if the Division is called upon to divulge that information, it is immediately to notify the Federal Reserve, the Federal Deposit Insurance Corporation, or the National Credit Union Administration, and that agency will step in and prevent the release of the information.

Senator Neal asked if a procedure exists which the Division follows when confronted with this situation. It is part of an agreement the Division has to share information with the federal regulatory agencies, Mr. Walshaw answered. For instance, when the Division is asked to divulge information the federal regulatory agencies consider confidential, and obviously the Division considers confidential too, the Agency notifies them and they will intercede to block the release of that information.

Senator Neal remarked that the Legislature has an interest in that information and asked if it is a fact that the information cannot be divulged to the Legislature. Mr. Walshaw replied he does not know under what circumstance the information could be divulged in the manner to which Senator Neal referred.

Senator Neal clarified that he referred to information obtained during an audit. The Legislature helps run the State and sets policy for all institutions that operate within the State, he said. At some time, it might benefit the Legislature to know exactly what occurs in certain institutions in order to affect public policy. Reiterating the question, Senator Neal asked if information exists that the Legislature is not privileged to based on a confidentiality agreement.

Mr. Walshaw responded that during the last Legislative Audit the Division underwent, the Legislative Auditor told him they had determined they would not look at that information for the reasons just given. It is not something the Division told the auditor, but the auditor told the Division. Mr. Walshaw said he presumed someone within the audit organization made that determination based on legal advice obtained before examining the records.

Senator Neal asked if someone from the Audit Division could shed light on this discussion. As no one from that office was present, Chairman Rhoads said that as Chairman of the Audit Committee he would pursue the issue for the Committee.

Mr. Marvel asked at what point the public is notified when an examination reveals matters are going wrong for the investors. Mr. Walshaw responded that in the case of mortgage companies, there is no choice with the new statutes. When something of that nature is wrong, it must be made public record by public action, either by the imposition of an administrative fine, a suspension, or a revocation action. The discretion in statute is very limited.

Does anything like that pertain to financial institutions, Mr. Marvel asked. Mr. Walshaw responded that therein lays the problem. The very reason confidentiality exists is that when the findings of an examination are known, they are presented to the board of directors and to the regulatory authority. The results of the examination result in formal action being taken. In the case of a depository institution, that formal action takes one of two forms: either a cease and desist order or an 8A action, a most egregious action, which removes the institution's insurance certificate.

Mr. Marvel asked what protection the consumer has. If something occurs in an institution that might be detrimental for the investors, when are investors notified? Mr. Walshaw explained that the insuring entity is the ultimate authority and reserves the right to take whatever action is necessary, up to and including removal of the insurance of accounts. When that happens, the public becomes notified. It is expected the board of directors ultimately will take action to rectify problems identified in the examination. If the directors fall short in their responsibilities, the next step is to remove the board members or to take actions previously indicated.

Mr. Marvel suggested the Commissioner examine the recommendation pertaining to the Division going self-funded and attempt to implement the staff recommendation. If it is determined it is not be workable for the Division, it will become known during the budget hearings.

> **Mr. Marvel moved to adopt staff recommendations and allow Mr. Walshaw further opportunity to review the self-funding recommendation and to work with staff in an attempt to implement. Mr. Parks seconded the motion which carried unanimously by voice vote.**

Department of Human Resources – Bureau of Alcohol & Drug Abuse (BADA) (BA 101-3170)

Ginny Wiswell, Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, said she would be discussing the findings and potential recommendations for the Bureau of Alcohol and Drug Abuse, and that information is contained on pages 64 through 68 of the Meeting Packet (Exhibit C).

Ms. Wiswell stated that as follow-up to questions asked by Senator Neal during the May 31, 2000 meeting, the Agency provided a Functional Organizational Chart (Exhibit F) which she presented to the Committee. This chart more clearly outlines each of the fiscal teams, the project officer team, the data collection team, and the program approval team.

Ms. Wiswell said the potential recommendations resulted from deficiencies noted in four key areas. These areas include:

- Deficiencies in the performance measures developed by the Agency;
- A lack of policies and procedures necessary to distribute funds to the providers of substance abuse and prevention treatment programs;
- A lack of policies and procedures necessary to document how budgetary decisions are made by the Agency; and
- Deficiencies in the Agency's data management and financial reporting systems.

Ms. Wiswell stated these recommendations were presented during the May 31, 2000 meeting and the Division concurs with each of the findings and recommendations.

The first recommendation is that the Committee have the Agency strengthen its performance measures for the next budget cycle. The revised measures should address the performance of the programs funded by the Agency as well as the Agency to provide services to the substance abuse community.

The second recommendation is that the Committee have the Agency ensure programs are funded based on demonstrated outcomes. The Agency should provide a final report of the strategic planning process currently underway. That report should be provided to the Budget Division and the Fiscal Analysis Division no later than December 1, 2000, and a preliminary report should be issued no later than October 1, 2000 in order to ensure the budgetary findings are included in the upcoming budget cycle.

Continuing, Ms. Wiswell said the third recommendation is that the Committee have the Agency review and document its budgetary methodologies by October 2000. The areas of concern are as follows:

- The Agency needs to determine if BADA should be included in the Health Division's indirect cost allocation plan. Currently, the Agency does not directly participate in that cost allocation;
- The Agency needs to determine how the maintenance of effort requirement will be affected by the potential reversion of State funds by the close of this fiscal year. The revision would have a dollar for

dollar impact on the amount of federal monies provided;

- The Agency needs to determine whether the maintenance of effort should exclude one-time or discretionary funds. Currently, one-time costs are included in the maintenance of effort for State funds;
- The Agency needs to determine the full costs to implement Senate Bill 210 to certify halfway houses and detoxification technicians. Those full costs need to be included in the regulations currently being developed;
- The Agency needs to determine whether additional positions should be relocated or reclassified to improve the flow of work and to enhance the Agency's expertise in several key areas;
- The Agency needs to determine a base level of employee training and ensure the expenditure category includes only training that supports the development of employees; and
- The Agency needs to determine whether positions and functions assigned to administration exceed the federal limitations. Currently, there is a 5 percent cap on federal positions and functions assigned to administration.

The final recommendation is that the Committee direct the Agency to review its data management and financial systems to determine whether upgrades might be necessary in the upcoming budget cycle. The upgrades would allow the Agency to have the ability to improve its financial and operational control over the programs currently being funded. In addition, the Agency should be asked to provide a final report of the analysis of their data and financial systems no later than October 1, 2000 in order to ensure the findings will be incorporated in the upcoming budget cycle.

In summary, Ms. Wiswell called the Committee's attention to the chart on page 67 of the Meeting Packet that summarizes all budgetary adjustments necessary for the next budget cycle. The adjustments, she said, are standard in nature.

Ms. Wiswell referred to page 68 of the Meeting Packet and said the level of funding approved by the 1999 Legislature for the MAXIMUS contract might not be available during the next budget cycle. If funds are not available, or if they are available at a reduced level, a decision must be made whether or not to continue the adolescent treatment expenditures. If so, funding sources for those enhancements needs to be identified.

Chairman Rhoads asked who makes the decision whether MAXIMUS funds are available or not. Responding, Ms. Wiswell stated the MAXIMUS contract is initiated through the Department of Human Resources (DHR). DHR notifies the Agency and, if funds are available, DHR requests IFC approval to distribute funds consistent with legislative intent.

Mr. Marvel asked if BADA agrees to the adjustments in the base budget. Ms. Wiswell responded they are in agreement.

Mr. Marvel stated he still has concerns with the BADA programs. At a previous meeting it was noted there are over 30 programs funded by BADA throughout the State. He questioned how those programs are funded. Ms. Wiswell responded the programs are funded through a combination of State funds as well as a federal Substance Abuse Prevention and Treatment (SAPT) Block Grant.

Senator Neal asked what period this review covered. The period examined is the base year, the entire fiscal year through June 2000, Ms. Wiswell replied.

Maria Canfield, Chief of the Bureau of Alcohol and Drug Abuse, said that Ms. Wiswell stated the truth. There is a constellation of funds available to the BADA programs.

Phil Weyrick, Administrative Services Officer, also concurred, stating there are several different funding sources. They include certification fees; General Fund monies of a little over $3 million; the federal SAPT Block Grant of almost $10 million; the Prevention in Education Federal Funding Grant of approximately $500,000; and the MAXIMUS funding of $500,000.

Mr. Marvel asked if all programs are required to submit an application for a grant. Yes, Mr. Weyrick replied.

BADA participates in a request for proposal (RFP) process each calendar year. The agencies respond to the RFP and then, based on the funding availability and the needs of the program, BADA allocates the funding based on agency responses.

Mr. Marvel asked if all monies flow through BADA. Is there some place outside the Agency where treatment centers can apply for assistance? Mr. Weyrick responded that as far as he is aware, all money is distributed through the Health Division.

Ms. Canfield added that in the past, BADA has relied on a number of different methodologies to collect information on performance measures. Currently, BADA has a draft report on a follow-up study done for adolescence, and a follow-up study for adults prepared by the Center for Applied Research at the University of Nevada Reno. Those reports, she said, will be shared with the Committee and the Legislature when they are finalized. They discuss what happens to individuals who enter treatment in the funded programs and what the outcomes are. BADA also has in place an evaluation for prevention programs (preliminary information will be available in September). For the next two years, more detailed information will be available on the results of prevention programs. Part of BADA's strategic planning process is to develop an evaluation strategy for the Bureau that not only will discusses how to assess substance abuse needs, but also how to monitor performance. BADA's concern is that it relies on outside agencies for assistance in assessing needs and evaluating performance, and the cost for that assistance often is very high. The Agency wants to bring those activities into the Bureau and routinize the performance measurements.

Mr. Marvel asked if BADA has the ability to track recidivism. Ms. Canfield responded that to some extent, yes it has. Mr. Marvel questioned if BADA also tracks the number of individuals in treatment who end up in penal institutions. Ms. Canfield said limited information is available on what happens to individuals in terms of juvenile justice referrals. That is an area, Ms. Canfield said, where the Agency will be able to make improvements in the coming year.

Mr. Marvel asked if BADA interfaces with the Department of Prisons on their programs. Ms. Canfield responded BADA does not interface directly with the prisons. The primary program works with released prisoners who require treatment services because they were unable to complete their rehabilitation in prison. Statistics are available on what happens with those prisoners. Ms. Canfield added she would be happy to make those statistics available to the Committee.

Mr. Marvel reported he had spoken to the first graduating class at the Lovelock Prison where much enthusiasm had displayed. He wondered how many inmates end up back in the prison system.

Ms. Canfield asked if Mr. Marvel was referring to the WINGS (Willing Inmates Gaining Sobriety) Program. Mr. Marvel responded affirmatively. Ms. Canfield indicated the WINGS Program is not a program funded by BADA. It is federally funded and she thought there was an evaluation component in that grant. Mr. Marvel asked if BADA reviews the program. Ms. Canfield confirmed she had visited the program and seen how the program works and the models used, but had not reviewed the outcome statistics.

Mr. Marvel asked if a similar program exists at the women's prison. It is his understanding that approximately 80 percent of women inmates are incarcerated for drug or alcohol-related crimes. Ms. Canfield revealed she has no direct knowledge of the women's prison. Her understanding is that the only formal treatment program in the adult system is the WINGS Program in Carson City.

> **Mr. Marvel moved to adopt staff recommendations. Mr. Parks seconded the motion which carried unanimously by voice vote.**

Department of Employment, Training and Rehabilitation – Bureau of Vocational Rehabilitation (BA 101-3265)

Jim Rodriguez, Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, told the Committee that within the Rehabilitation Division of the Department of Employment, Training and Rehabilitation there are two bureaus that provide vocational rehabilitation services to individuals with disabilities. They are the Bureau of Services to the Blind and Visually Impaired, and the Bureau of Vocational Rehabilitation. The Bureau of Vocational Rehabilitation provides vocational rehabilitation services to persons with disabilities to assist them in preparing for and obtaining meaningful employment, and in obtaining a maximum level of economic self-sufficiency. The Bureau accomplishes this basic mission by collaborating and coordinating their services with federal, state, and local employment, education, welfare, training, vocational training, health care, and disability programs. New guidelines under the Workforce Investment Act of 1998 require the Vocational Rehabilitation Bureau to develop programs and to become a full partner in the statewide system of employment for Nevadans with disabilities. This includes development of cooperative agreements with state and local K-12 public education programs and public institutions of higher education that assure disabled Nevadans have the greatest level of access to vocational rehabilitation services possible.

Referring to page 69 of the Meeting Packet, Mr. Rodriguez said the review of the Bureau's base budget produced four issues. Those issues address concern regarding the Bureau's performance indicators, personnel recruitment, and operational structure. In review of the Bureau's performance indicators and quarterly reports to the Department of Administration, it was determined the performance indicators reported by the Bureau are relevant to the Bureau's mission, goals and objectives. They are measurable and sufficiently comparable to other vocational rehabilitation service agencies throughout the United States. Overall, the Bureau's performance indicators sufficiently measure input and output factors as they relate to the services provided by the Bureau.

Mr. Rodriguez reported he found two areas of concern associated with the Bureau's performance indicators. It appears the Bureau reports certain agency performance statistics differently to state and federal agencies. For example, the Bureau measures its success to achieve its primary goal of vocationally rehabilitating and finding employment for disabled Nevadans by tracking a number of positive employment outcomes it obtains for its clients. For internal and federal reporting purposes, the Bureau calculates that performance statistic relative to the number of eligible clients who progress far enough into the system to have an individual plan of employment established for them. However, the Bureau reports quarterly performance indicators to the Legislature and bases those statistics on total number of eligible clients in the entire system, regardless of whether they have an Initial Plan Evaluation (IPE) developed for them or not. For Fiscal Year 1999, that difference in calculating base resulted in the Bureau reporting a 56 percent employment success rate to federal oversight agencies while reporting a 35 percent success rate to the Legislature. The difference in fiscal reporting basis is a direct result of a 1997 Legislative letter of intent that directs the Bureau to report employment outcome statistics on a different basis than is required by the Rehabilitation Service Administration. That duality in reporting standards lead to multiple reporting requirements that unnecessarily increase the administrative effort and unduly complicate the Bureau's performance reporting process. Therefore, staff recommends the Bureau develop a uniform set of performance reporting standards to adequately meet both legislative and federal programming, tracking, monitoring, and evaluation requirements. Performance statistics should be based on the same definitions, calculating base, and methodologies so that the reported performance can be interpreted by each regulating authority consistently and within the same content.

Chairman Rhoads asked if the recommendation is to use the federal program. In response, Mr. Rodriguez said the Bureau recommends they use the federal standards. Mr. Rodriguez said he believes the intent of the 1997 Legislature is to obtain the effect of the Bureau's performance on a complete pool of clients. There might be a medium ground the Bureau can reach that will satisfy both reporting requirements.

Continuing, Mr. Rodriguez disclosed that another weakness noted in the overall evaluation of the Bureau's performance indicators is that the Bureau does not report cost-based performance indicators in its quarterly reporting to the Legislature or to federal oversight agencies. While the measurements they do report adequately provide insight into the Bureau's workload and functional performance, they do not provide insight into the cost efficiency at which it delivers its services. Well-developed cost-based performance indicators would help manage the allocation resources and the administrative overhead costs associated with the programs and services it provides. Staff recommends the Bureau develop a set of cost-based performance indicators that effectively measure, track, and report the Bureau's cost performance relative to the services it provides.

Mr. Rodriguez stated the Bureau of Vocational Rehabilitation's base budget expenses are reviewed for reasonableness and appropriateness in relation to its previous year's expenditures. As of May 6, 2000, actual total program expenditures for the Bureau amounted to approximately $9.2 million. The Bureau projects total Fiscal Year 2000 expenditures at year-end to equal $11.7 million, which is approximately $1 million less than budged. The Bureau has stated the primary reason for its inability to fully utilize available funding is its lack of success in recruiting and retaining qualified rehabilitation counselors. The plan as set forth in the Federal 1998 Rehabilitation Act stipulates rehabilitation counselors must possess the highest state standards and highest national certification for that position. The Bureau's inability to recruit and retain qualified personnel has led to significantly increased counselor workload ratios far in excess of the national comparable statistics. That significant increase in counselor workloads negatively impacts the Bureau's ability to effectively provide service to its clients, limits accessibility to the Bureau's services for new and existing clients, and reduces the overall quality of client services provided.

Chairman Rhoads asked how many vacancies the Bureau has and how many employees are currently employed. Mr. Rodriguez responded that at the time of this report, there were ten vacancies. The Bureau has 77.5 full time equivalent positions, 54 of those are direct service-related positions.

Mr. Marvel asked what the caseload per worker is and how that compares to the national standard. Mr. Rodriguez answered that as of February 2000, the caseload was 201 per counselor compared to the national statistic of approximately 110.

Mr. Rodriguez continued, saying the Bureau indicates a possible work around to the job skills requirement set forth in federal requirement 34 CFR 361.5 would be to redefine the current job classifications for rehabilitation counselors which would allow the Bureau to continue to meet its functional responsibilities while still meeting its federal compliance requirements. Therefore, staff recommends the Bureau work with the Department of Personnel to re-evaluate its current personnel classification series for its rehabilitation counselors. The primary objective is to adequately redefine the rehabilitation counselor position classification to meet the Bureau's work performance needs while continuing to meet the federal grant skills requirements established in 34 CFR 361.5.

In closing, Mr. Rodriguez said it appears some redundancy in functions and operations exists between the two bureaus. The 1995 Legislature addressed that redundancy and issued a letter of intent to the Bureau to perform a feasibility study. The Bureau responded on January 13, 1996 with their findings and recommendations. It appears there are significant financial incentives to do that, but there are also some functional, operational, and other issues that offset those financial incentives. Staff recommends the Bureau revisit the feasibility study, update it with current cost and operational issues, and determine whether it is beneficial or not.

Mr. Marvel asked if the Bureau of Services to the Blind subsidizes the Bureau of Vocational Rehabilitation.

Maynard Yasmer, Administrator for the Rehabilitation Division of the Department of Employment, Training and Rehabilitation (DETR), responded no. The plan proposed three years ago took the duplicated top and middle management positions, spread them across an appropriate number of supervisory components, and then re-spread the saved revenues into services and staffer services. The Services to the Blind program is protected in a special services unit for programs such as mobility instruction, orientation adjustment, and low vision. All of those programs would remain.

Mr. Marvel asked if the funding would remain separate if a merger were to take place. Mr. Yasmer responded it would not have to. There are good reasons, he said, to consider duplications in some of the upper and middle management positions. They would still be protected. In 1973, the organization was combined under the Rehabilitation Division. At that time the two groups were bureaus instead of divisions. Now they would be called sections instead of bureaus. It is organizationally possible to maintain some trackability, accountability, and services with more resources at the same time.

Marty Ramirez, Chief Financial Officer, Financial Management Section, Department of Employment, Training and Rehabilitation, elaborated on the question of funding saying the two divisions have a common funding source. They share the Department's Section 110 entitlement, which is a 21.3 percent General Fund match. The grant is split 20 percent to the Bureau of Services to the Blind and 80 percent to the Bureau of Vocational Rehabilitation. If the two divisions were combined, it would pull the grant back together.

Mr. Marvel moved to adopt staff recommendations. Mr. Arberry seconded the motion which carried unanimously by voice vote.

__Department of Conservation and Natural Resources – Division of State Parks__ **(BA 101-4162)**

Mark Krmpotic, Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, said the four primary recommendations for the Division of State Parks are presented in the Meeting Packet beginning on page 71. The first recommendation deals with the mission statement, goals and strategies. It was identified during the base budget study for State Parks that no measurable objectives exist to parallel their goals. Measurable objectives would enable the Division to better determine whether they achieve their goals and would provide a plan for the Division to achieve those goals. The recommendation identifies an example of an objective would be to parallel the Division's goal to maintain staff ratios consistent with good service levels. That objective is to maintain a vacancy rate of no greater than 5 percent. Staff recommends the Division incorporate measurable objectives into its strategic plan and to use those objectives as a basis for its base budget request in the 2002-2003 biennium.

The second recommendation, Mr. Krmpotic stated, involves performance indicators. The Division wants to expand its performance indicators to better measure the satisfaction of visitors to parks based on visitors' observation of cleanliness, facility conditions, safety, and security. The Division also wants to change existing indicators to include a timeframe component to measure the ratio of responses to significant requests/assignments compared to projections and to the base ratio of actual versus projected significant requests. The Division identified two indicators to better measure their grants and special projects: 1) the grant dollars successfully obtained for use by the Division of State Parks; and 2) grant dollars allocated to political subdivisions and other entities eligible for grant programs administered by the Division. Staff recommends the Committee direct the Division to incorporate their proposed changes to performance indicators and to use those as a basis for the 2002-2003 biennial budget request.

Continuing, Mr. Krmpotic said the third recommendation deals with revenues. NRS 365.535 currently calls for Marina Development Gas Tax collections to be directed to the Parks Marina Development Fund. For several years, the Legislature has authorized those funds to be deposited directly into the Division of State Parks budget account. Staff recommends the Committee direct the development of a bill draft request to re-direct those funds to the State Parks budget consistent with the way those funds are budgeted.

The second revenue recommendation deals with the automatic fee collection machines at the Valley of Fire State Park. The 1997 Legislature issued a letter of intent and the Division complied with that intent in January 1999 to implement the use of automatic fee collection machines in the Valley of Fire State Park. The Division reports it has had problems with the credit card component of the machines and that they currently use the machines only as backup when personnel are not available at the park entrance booth. Staff recommends the Division explore alternatives for improved service and performance to better realize the full potential of the automated fee collection machines. Mr. Krmpotic said it is his understanding the Division has contemplated re-locating one of the fee collection machines to Sand Harbor at Lake Tahoe to determine if that location would receive better service.

Mr. Marvel asked how many automatic fee collection machines are in operation. Mr. Krmpotic responded three machines are located at the Valley of Fire State Park.

Mr. Krmpotic said the Division currently shares office space with the Division of Forestry at the new regional headquarters building opened this year in Las Vegas. State Parks is budgeted to provide for the fire sprinkler monitoring for the entire building, while the Division of Forestry is budgeted to provide janitorial services for the building. Staff recommends the Committee direct both divisions to share operating expenses and cost allocate those expenses to the occupants of the building.
The Division has prioritized a list of maintenance projects that cumulatively totals $32.5 million. Staff recommends the Committee direct the Division to identify alternative funding sources to fund the backlog of maintenance projects. Mr. Krmpotic said a letter of intent had been submitted to the Department of Taxation to survey other states in an effort to identify taxes that contribute to the support of development, maintenance, and

operation of state park facilities.

In conclusion, Mr. Krmpotic said the final recommendation is a summary of base budget adjustments, summarized on pages 73 and 74 of the Meeting Packet. Mr. Krmpotic reported that in category 04 (Operating) the Division rents a modular building at the Old Las Vegas Mormon Fort State Park. The recommendation initially included a recommendation to eliminate that as a one-time expense for the 2002-2003 biennium. The Division indicates they need that structure through the building of a visitor's center, estimated to be completed in Fiscal Year 2003. Staff agrees with the Division to include that expense until the full completion of the project.

Senator Neal asked if the Division has determined what percentage of time the automatic fee collection machines are used compared to the percentage of time the park entrance gate is manned by an employee.

Wayne Perock, Administrator, State Parks Division, Department of Conservation and Natural Resources, reported that when an individual is stationed at the park entrance gate, fee compliance is 100 percent. With the automatic fee collection machines, or with the honor system, that ratio drops considerably. In some cases, a good compliance rate with the honor system is approximately 30 percent. That percentage can drop, depending on the visitor's attitude, to below 5 percent. The automatic fee collection machines were intended to replace the envelopes at the high volume Valley of Fire State Park. The machines are still being used. There is still a printing cost for the envelopes and, for instance, if the fee is $5, visitors deposit between $1 and $5 in the envelope. The majority of time the correct fees are enclosed. At the Valley of Fire State Park it takes a staff person as many as eight hours to open the envelopes and sort the money before it can be counted. Fee machines do not give a permit unless the correct amount is inserted. The machine prints a ticket which is deposited into a bag. The machine's computer calculates the amount of money collected and the number of permits issued. The machines provide better security because one person removes the locked bag and another person accounts for the money.

Senator Neal asked if his understanding was correct that the fee collection machines do not eliminate a person. Mr. Perock responded affirmatively. Internal controls require that one person remove the money from the machine, another accounts for the money, and a third deposits the money. The process eliminates the perception that anyone takes some of the money. With the envelopes, there is that perception because it is never known exactly how much money was deposited into the envelopes. One problem with the machines is credit cards. In some cases the machine will not print a permit so the visitor reinserts his card, sometimes up to five times and the visitor is charged five times. That has to be reconciled. Another problem is accounting. The date when credit card charges hit cannot be reconciled. It is a banking problem. Credit cards are used at the entrance booths with good accountability. A major problem with the fee collection machines is that the company that supplies the machines does not provide good service in Southern Nevada. A consultant for the company told the Division there are more machines in the northern part of the state. Apparently, the company has no customers other than the State in southern Nevada. Mr. Perock reported he would not do business with this vendor again.

Mr. Marvel asked if the Division has explored other methods to enhance its income to which Mr. Perock responded the Division always looks for ways to increase its revenue. Income and revenues, he said, especially from fees, are challenges for state park directors throughout the United States. Fees, he said, are considered a tax to individuals. The State of California just announced it cut its fees in half due to a budget surplus. California plans to make up the other half of that fee from the General Fund. That has not been Nevada's course of action. Mr. Perock said that when he first came to Carson City as its Chief in 1990, State Parks revenues were approximately $750,000. Currently, they are approximately $1.8 million simply because of the restructuring of how Nevada handles fees.

Mr. Marvel questioned if there are phases of the state parks that could be privatized. Responding, Mr. Perock said that during the last biennium a consultant examined concessions as a source of income and reported not many opportunities exist. One opportunity might be a beach concession at Sand Harbor. Many states rely on concessions for income. The CARA Legislation currently before Congress could bring $4.5 million to $5.0 million a year to the state of Nevada, half of which would stay with the Division and half would go through grants to the political subdivision. The catch is that it requires a 50 percent cash match.

Chairman Rhoads asked how long the income from that bill would last. Mr. Perock responded the bill would continue until 2007. The State has until 2007 to match the funds. There are various options, he said. The State could pass more of it to the counties, cities, and local governments.

Mr. Marvel asked how closely State Parks works with the Commission on Tourism. Mr. Perock responded the Division has worked with Tourism, especially in the marketing field developing the statewide brochure. There are funding sources for the brochure and for some of the seasonal help. Last session provided $192,000 the first year and $198,000 the second year to help with this backlog.

Mr. Marvel questioned how much of the $32 million earmarked for maintenance would appear in the budget in the next biennium. Mr. Perock said State Parks would selectively present the highest priorities and try to locate matching funds. The Division is hopeful that Land and Water Conservation funding will return.

Mr. Marvel moved to adopt staff recommendations. Senator Neal seconded the motion which carried unanimously by voice vote.

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<u>**Department of Administration – State Public Works Board Inspection Account**</u> **(BA 401-1562)**

Rick Combs, Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, said the recommendations for the State Public Works Board (SPWB) are listed on pages 75 through 78 of the Meeting Packet and include a list of major findings and a corresponding recommendation for each finding. Mr. Combs stated there are two potential performance measure recommendations. One deals with the fact that the Board revises its performance goals if it believes they are unable to be met as they were originally established. Historically, the Board sets a goal to complete all capital improvement projects within four years of the projects being approved. If the Board finds it is unable to complete a project in that four-year timeframe, they simply ask for an additional year to complete the project, and change their goal to complete the project within five years instead of four years. The recommendation is that the State Public Works Board revise the manner in which they measure performance so that they always compare outcomes to the progress that must to be made to ensure projects can be completed within four years.

The second performance measure finding, Mr. Combs said, is that the only goal the Board measures is whether it completes projects in a timely manner. The recommendation is that the SPWB develop new performance measures that measure the Board's progress in meeting all its goals. Some examples for the Committee to consider are the number of change orders; the percentage of projects that contain change orders; the dollar amount of the project change orders; the number and percentage of projects for which changes in scope have been requested; completion of projects within the timeframe approved by the Legislature; and the percentage of projects completed under budget.

Mr. Combs stated there are three recommendations that deal with revenue. The first recommendation deals with the formula the Board uses to assess project management and inspection fees collected for each project. The Board uses that revenue source for the majority of expenditures in this account. The 1999 Legislature approved an Account Technician position contingent upon that position developing a new system to transfer funds from the various capital improvement projects into this account. A review of this base budget reveals it would be impossible to implement a reliable plan at the current time. The recommendation is to ask the Board to ensure its budget request for the 2003-2005 biennium is based upon a reliable and accurate plan to allocate the costs to provide management and inspection services to the various capital improvement projects in each program.

Continuing, Mr. Combs said that when the agency conducts school plan reviews they charge an administrative fee as well as a fee for services on in-house projects. It does not appear that either the administrative fee or the services fee is based upon the time and effort put forth by members of the Agency to provide those services.

The recommendation is that the Board ensure the administrative fee charged by the Board to administer school plan review projects is based upon the costs incurred by the Agency to provide the administrative services. Additionally, the Committee may wish to recommend fees charged for plan reviews performed by Board employees are based upon expenses incurred by the Board to provide those services.

Mr. Combs reported the Agency has not transferred any funds approved for statewide capital improvement projects to the Inspection Account for training programs. The Board is authorized to send project coordinators to training courses in order to keep their certifications current. A number of years ago a decision was made that the appropriate place to charge those expenditures was to the statewide capital improvement projects so that the source of funding for that training came from the projects they supported. The recommendation is that the Board transfer funds from its statewide capital improvement projects for training and certification costs related to statewide projects. If the funds are not transferred, training would be paid for with funds not solely meant for that purpose. Federal funds intended to help build the prison, for instance, should not be used to train statewide project coordinators.

Mr. Combs reported the Agency currently has approximately 20 percent of its employees located in southern Nevada. Approximately 40 to 45 percent of the capital improvement projects are performed there. Additionally, no supervisory positions are located in southern Nevada whereas five supervisory positions are located in northern Nevada. The recommendation is that the Board conduct an organizational analysis of its personnel and present its findings to the Capital Improvement Joint Subcommittee during the 2001 Legislative Session. That analysis should give members of that Subcommittee the opportunity to review what potential transfers might be appropriate.

In a number of instances, the Board has not used its personnel in the manner approved by the Legislature. That practice has led to General Funds being used to fund programs intended to be funded through other sources. The Committee may wish to recommend the State Public Works Board revise the manner in which it uses its personnel to ensure General Funds do not support programs not intended to be funded with General Fund dollars. Furthermore, the Committee may wish to recommend the Board retroactively re-allocate and charge payroll expenditures to the appropriate budget account. Mr. Combs stated this recommendation should be directed toward the Department of Administration as the department best suited to guide the Agency in how to appropriately perform this allocation retroactively. During the May 31, 2000 meeting it was reported that General Fund employees from budget account 1560 performed services in budget account 1562. The Department of Administration should be directed to correct this situation, which would result in a reduction in General Fund expenditures for the fiscal year.

Continuing, Mr. Combs told the Committee two positions in the State Public Works Board Inspection Account had been vacant for more than seven months and two additional positions approved by the 1999 Legislature had not been filled within six months after the start date for those positions. The Committee may wish to recommend the Board ensure that vacant and new positions are filled in a timely manner. Furthermore, the Committee may wish to recommend that temporary positions be requested when needed to perform services for agency projects the Board accepts. Those agency projects are projects not approved by the Legislature in the Capital Improvement Program, but projects requested by agencies after the fact for which the Board provides services.

In conclusion, Mr. Combs reported the Board purchased various furnishings and equipment not approved by the Legislature. Those items were purchased with funds approved for other furnishings and equipment. The recommendation is that the Committee may wish to direct the Board to ensure furnishings and equipment purchases are limited to items approved by the Legislature unless the Board can document an emergency or an unexpected event. The Committee may also wish to recommend the Board carefully consider its future purchases and that they request only items truly needed to perform the mission efficiently and effectively.

Senator Neal asked if a procedure exists to control the work performed under certain work orders. He asked if someone in the Agency ensures work an individual performs is actually charged to a particular work order.

Ward Patrick, Deputy Manager, Professional Services, State Public Works Board, reported that the SPWB has reallocated duties to various people on the staff. People who were in budget account 1560 had changed to budget account 1562 because the Division felt there were some needs there regarding plan checking. Due to turnovers, the Division reallocated from which funds people worked. At least one individual from budget account 1560 had been allocated to perform duties in budget account 1562. The Division simply needed to correct from which account those duties were being charged. It was a matter of the timeliness that it took to get people converted from one budget account to another.

Senator Neal again asked if the Agency has an individual who actually examines the work orders to ensure timesheets match the work orders. Mr. Patrick declared that the SPWB employees work as the Division directs them to work.

Mr. Parks remarked he saw no need to defer the cost accounting recommendation (Item II.A on page 75) until the 2003-2005 biennium. That system of accounting is readily available and can easily be implemented. He said he also believes that to account for project costs accurately it is necessary to ensure that inspection costs, as well as any other costs related to the management of the project, be charged to the appropriate project. The costs of managing one project should not be charged to another project.

Mr. Marvel moved to adopt staff recommendations with the exception that Item II.A be incorporated into the upcoming budget cycle. Mr. Parks seconded the motion which passed unanimously by voice vote.

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<u>Department of Administration – Purchasing Division</u> (BA 718-1358)

Mary Matheus, Program Analyst, Fiscal Analysis Division, Legislative Counsel Bureau, said the Committee had reviewed the base budgets of the Purchasing Division at the April 11, 2000 meeting. Following that meeting, staff developed four recommendations for the agency to implement in the submittal of their upcoming budget request. The Division's mission statement, goals, and strategies were reviewed and it was found the goals specifically addressed the Division's own employee training goals. The Division testified they provide numerous classes on commodity purchasing and contract training for the system users. Staff recommends the Purchasing Division expand their training goals to express their commitment to the goals regarding the training of the system users, as well as to the training of the Purchasing Division's staff.
The second recommendation, Ms. Matheus said, deals with performance indicators and the shift in staffing patterns. The Purchasing Division has indicated the nature of its function is changing from strictly a transaction-based system to a more contract-based system. The Division participates in increasingly more purchasing arrangements that benefit multiple users such as open-term contracts, balance-of-the-line contracts, contracts solicited in conjunction with other states, and other governmental entities. The Division indicates that value and efficiency are added to the purchasing process by these types of agreements. This trend in operations will eventually cause some changes in organizational structure and staffing where perhaps, over time, they will need less staff, but at higher salary grades. Staff recommends the Purchasing Division develop performance indicators to measure the functional area of their current operations as well as indicators that measure the impact of multiple user contracts. In order to justify any future staffing changes, the Division should develop performance indicators that clearly measure and demonstrate the benefit of multiple user contract arrangements.

The third recommendation, Ms. Matheus said, deals with the revenue assessment methodology. The Purchasing Division is an internal service agency fund whose purpose is to generate enough revenue over time to cover the costs of their services. Prior to the 1999 Legislative Session, the Division's fund balances periodically were very high which resulted in Cash Management Improvement Act interest reimbursement requirements. In years when the purchasing activity was reduced, reserves were reduced and services jeopardized. The uncertain cash flow generation methodology, as well as the inability of the Integrated Financial System (IFS) to handle the individual transaction based methodology, caused the Purchasing Division to develop a new assessment methodology during the 1999 Legislative Session to cover the majority of the Division's costs. That new assessment methodology was only partially implemented at the end of the 1999 Legislative Session. The assessment was put into place for the commodity purchasing but not for the service based and the contracts. Staff recommends the methodologies to measure and distribute costs relating to statewide and multiple-user contracts be developed and implemented. A methodology that more equitably assesses commodity purchase costs, using more than one year's activity as a basis for assessment, should be developed. A distinction between multiple user contract costs and revenue assessments, and individual agency contract service cost and assessments, needs to be developed.

Ms. Matheus stated the Purchasing Division discussed a proposal to establish a Web-based shopping mall referred to as the Nevada Mall Project. The agency indicates they would like to implement this on a contract basis beginning in FY 2001. While the Nevada Mall Project is outside the review of the Fundamental Base Budget Review, the Committee may wish to request that the Nevada Mall Project be presented to the IFC for a full review before implementation, and brought back as an Enhancement module in the upcoming budget submittal.

Chairman Rhoads asked what the cost to establish a Web-based shopping arena would be. Ms. Matheus responded the project would cost about $150,000 per year.

Mr. Marvel moved to adopt staff recommendations. The motion was seconded by Mr. Arberry and carried unanimously by voice vote.

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There was no public testimony.
Chairman Rhoads said this meeting completes the fundamental review of base budgets.

Dan Miles told the Committee staff would make the information presented here available to the 2001 Legislative Session and to the Budget Division who reviews the agency budgets.

The Committee told Dan Miles they will miss him and wished him well in his new endeavor.

Chairman Rhoads adjourned the meeting at noon.

Respectfully submitted,

Jo Rasey
Committee Secretary

Approved:

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Dean A. Rhoads
Committee Chairman

Date: ________________________________