

*Fundamental Review of Base Budgets
of State Agencies*



*Legislative Counsel
Bureau*

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**FUNDAMENTAL REVIEW OF BASE BUDGETS
OF STATE AGENCIES**

BULLETIN NO. 97-16

**LEGISLATIVE COUNSEL BUREAU
STATE OF NEVADA**

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SUMMARY OF RECOMMENDATIONS
FUNDAMENTAL REVIEW OF BASE BUDGETS
OF STATE AGENCIES

Nevada Highway Patrol (NHP)

1. The Committee was concerned with the NHP performance indicators for several reasons. First, the indicators continue to measure outputs, rather than outcomes. Second, there is little comparability between years because of changes in reporting methods. The Committee recommends the NHP continue to refine their performance indicators and provide more outcome-related indicators in the upcoming budget cycle.
2. Consistency in reporting expenditures and adherence with Legislative funding intent was also an area of concern for the Committee. The Committee recommends the agency revise amounts charged to incorrect expense categories and eliminate improper coding of expenditures in the future.
3. The agency attempted to categorize their base budget by function (program) instead of object of expense. Although the effort was not perfect, it did suggest that several programs might not be fully supported from the revenue designated for that function and, therefore, may be subsidized by the Highway Fund. The programs included the Visible Smoke Enforcement Program, Hazardous Materials, Information Services and the Dignitary Protection Program.

The Committee agreed with the agency's determination that each of these programs should be reexamined for proper financial support and recommends that continued effort be made to identify costs by program or function. In addition, the Committee recommends the agency evaluate the effectiveness of the Visible Smoke Program and establishing a separate budget account for Information Services.

Division of Mental Hygiene and Mental Retardation - Rural Clinics

1. The agency's mission statements, goals and objectives seem vague, general in nature and of limited value. The Committee recommended that the agency develop more meaningful information before the 1997 Legislature.
2. While the agency has done a great deal of work on performance measures, they have not provided a standard of comparison against which one can judge their performance. The Committee recommends the agency develop standards or goals to measure actual performance against planned performance.

3. The agency fell behind in billings and collections for services provided to clients. One office had stopped billing and it appears to have taken too long for the agency to discover the problem. The Committee recommends the agency monitor the status of revenue collections by revenue source and office on a monthly basis and that the agency and the Division of MH/MR ensure each office has staff trained on proper billing procedures and establish a method to monitor and correct problems as they are developing.
4. The Legislature has been concerned about the Rural Clinics Administration office being at the Nevada Mental Health Institute and their staff having additional responsibilities with the Institute. The Committee recommends the agency should either ensure their administration, financial and support staff are providing services in support of the various Rural Clinics offices or consider moving the Administration Office away from the Nevada Mental Health Institute.
5. Approximately 25 percent of the clients served by Rural Clinics are children. The Committee recommends the Rural Clinics' program continue to work closely with the Division of Child and Family Services to ensure all of the clients who are children receive all necessary services from both Divisions.
6. The 1995 Legislature expressed concern about the mental health needs of citizens living in rural communities in Clark County. The agency has conducted a needs assessment of mental health requirements in rural Clark County and rural Nevada. The Committee recommends that results of the needs assessment be presented to the 1997 Legislature including a decision about whether the Rural Clinics' Program or the Las Vegas Mental Health Center should be the primary agency to provide services to rural communities in Clark County.

State Health Laboratory

1. The Health Division has recommended a study to clearly delineate the role and functions of the State Health Laboratory; to identify the core public health functions that need to be state supported; and to determine an appropriate fiscal structure to maintain a viable laboratory program. The study would address whether testing services currently provided by the State Health Laboratory would be best performed in the private sector and determine the implications on the Laboratory's budget and on the Division's responsibilities for promoting and protecting public health. The Health Division would conduct the study. The Committee recommends that the study be completed by the Division and the results be reported to the 1997 Legislature.
2. The Health Division proposed and the Committee recommends that the Laboratory Certification program be gradually transferred from the State Health Laboratory to the Bureau of Health Facilities. A significant laboratory certification backlog currently

exists which will not be addressed until additional resources are acquired. A measurement indicator that monitors certification activities would shed insight on the progress of reducing the backlog and meeting A.B. 580 (1995) requirements.

3. Fluctuations in user patterns and workload reductions primarily with environmental chemistry water testing has created a revenue shortfall for the past several fiscal years. The Health Division has requested a \$25,000 IFC allocation for FY 1996 to resolve the Laboratory's cashflow problem. Revenue shortfalls will most likely continue to plague the Laboratory's budget in FY 1997. The Committee recommends the Division study the laboratory fee structure and suggest an appropriate funding mix relative to the findings and recommendations of the internal study on possible privatization.
4. The State Health Laboratory has historically provided water chemistry and water bacteriology testing for the Division of Environmental Protection (DEP) per an inter-agency agreement. The reimbursement rate was increased this year from \$70,000 to \$90,000 per year. The rate of reimbursement does not cover the Laboratory's costs. The value of testing services provided DEP in FY 95 was \$145,000. The Committee recommends the Division re-negotiate a reimbursement rate with DEP that is more equitable and covers the Laboratory's costs.
5. The State Health Laboratory currently uses an assessment tool called a work time unit (wtu) to compare the output (productivity) of the laboratory on a year-to-year basis. The wtu has not been refined to a point to allow for making staffing to workload ratio comparisons. The Committee recommends the Laboratory continue refining the wtu assessment tool so in the future it can be used as a valid measurement indicator for making staffing determinations, for conducting productivity comparisons and for establishing a productivity standard with which year-to-year performance can be measured.

Division of Insurance - Regulation

1. The Committee recommends that the Division conduct an audit of positions with the Budget Division and LCB Fiscal staff to ascertain which positions were granted specifically for accreditation purposes and that the Insurance Commissioner submit written certification that positions originally granted for accreditation are currently devoted to accreditation workload.
2. The Committee recommends the Insurance Division report to the 1997 Legislature regarding details of travel funds used from the NAIC budget and the Insurance Education and Research budget to achieve accreditation. The Division should identify courses that were funded by the two budgets that were specifically related to accreditation. The Division also needs to demonstrate how attendance of NAIC

national conferences conforms to the legislative intent to fund training that will enable the Division to meet accreditation standards.

3. As part of the joint reconciliation of positions related to accreditation, the Division also needs to review personnel classifications. Preliminary information from NAIC reviews seems to indicate concern on the part of the accreditation team that incumbents in positions within the Division do not possess necessary skills to accomplish financial reviews. The Committee recommends any findings from the joint audit regarding reclassification actions should be substantiated and included with the agency's requested 1997-1999 budget.
4. The Committee recommends that the Insurance Division provide a comprehensive report on accreditation with its 1997-1999 budget request. The report should list all resources required for accreditation, to include updated requirements from the most current review. The report should also address the benefits to the state if accreditation is achieved.
5. The Committee recommends the Division provide actual FY 96 expense information for each fee or charge item of revenue, so a determination can be made as to the appropriateness of fees charged.
6. The Committee recommends the Division provide definitions of caseload with the 1997-1999 budget request.
7. The Committee recommends the Division adjust the amount of continuing legal education (CLE) that is funded for each attorney, to make the Division's budget request consistent with CLE provided by other agencies within the state.
8. The Committee recommends the Division provide expanded narrative for the Division's cost allocation process in the 1997-1999 budget to describe items allocated, methodology for allocation, and associated calculations.
9. The Committee recommends the Division provide detailed itemization of all costs pertaining to review of regulations for FY 96 actual cost, with specific justification for any request for those costs to remain in base for the FY 1998-1999 biennium.
10. The Committee recommends the Division Justify continued staffing of the Medical-Dental Legal Coordinator position with an attorney.
11. The Committee recommends the Division work with the Purchasing Division and the Budget Division to clearly define deliverables for the Medicare ICA contract and immediately amend the contract, to ensure the Division's satisfaction with vendor

performance. Additionally, the Committee recommends development of measurement indicators or caseload information for the program, to be included in the 1997-1999 budget.

12. The Committee recommends the Division of Insurance carefully monitor receipt of federal cash to ensure that contract services are not obligated prior to approval or receipt of federal funding.
13. The Committee recommends that in the 1997-1999 budget, the Insurance Division either propose to transfer the Medicare ICA program to Aging Services or provide justification to retain the program within the Insurance Division, since the Medicare ICA program serves the same population as Aging Services.

Nevada Equal Rights Commission

1. The Committee recommends the Commission provide updated goals with the 1997-1999 budget.
2. The Committee recommends the Commission provide a comprehensive report on its performance measures with the 1997-1999 budget to detail what each measure is, how it works, how it will be calculated, and how the data will be collected.
3. The Committee recommends that the Commission configure the 1997-1999 budget request to include an analysis of receipt of revenues over the biennium, with specific emphasis on receipt of federal funding and cash flow related to it. The Commission should mark specific instances of anticipated cash shortfall and provide details of their plan to resolve it.
4. The Committee recommends that the Commission, jointly with the Budget Division, LCB Fiscal staff, and department fiscal staff, develop a model to relate caseload to staff and to project future growth patterns for the program for inclusion in the 1997-1999 budget. Additionally, it is recommended that, as part of the Expanded Narrative, the Commission provide a status report on caseload/backlog with the 1997-1999 budget that defines terms the Commission expects to use and provides past trends as well as future projections for all performance indicators. It is also recommended that the Commission include case management as a part of the report on caseload/backlog.
5. The Committee recommends that the Commission provide a separate report with the 1997-1999 budget that indicates how employee work performance standards are being enforced, with specific relation to reduction of the backlog (or reduction of open cases).

Benefit Services Fund

1. The Committee recommends the agency continue to refine its mission statement and performance indicators in the 1997-1999 budget cycle.
2. Due to higher than anticipated reserves, the Committee on Benefits increased benefits to employees in July 1995. The Committee recommends the agency include with its 1997-1999 budget submittal a report on the excess reserve, the impact from the restoration of benefits and the estimated life of the reserve.
3. Changes made in actuarial assumptions of the Insurance Trust Fund immediately following the 1995 Legislative Session had a major impact on the fund reserves and had the new assumptions been available earlier Legislative action might have been altered. The Committee on Benefits committed excess reserves resulting from the new actuarial assumptions to increased insurance benefits. The Committee recommends that the Senate Committee on Finance and the Assembly Committee on Ways and Means thoroughly review the funding mechanism for benefit services before approving that budget. In addition, the Committee recommends that any increase in benefits that the Committee on Benefits proposes when the Legislature is not in Session be reviewed by the Interim Finance Committee.

Consumer Affairs Division

1. The Committee recommends the Division revise their mission statement, develop measurable goals, and produce outcome-based performance indicators.
2. The Committee recommends the Division provide monthly reporting of caseload statistics expanding the categories of complaint resolution from "open" and "resolved" to include a "pending" category (to address cases forwarded to the Attorney General's Office which are unresolved for the customer). The Committee also recommends expanding the complaint resolution tracking to include the length of time to forward a case to the Attorney General's Office and the length of time to resolve a case for a consumer. The Committee also requested the agency to provide a historical analysis of the caseload distribution between northern and southern offices.
3. The Committee recommends the Division continue to work closely with the Consumer Fraud Unit of the Attorney General's Office to ensure cases are prepared in a consistent and thorough manner. The Committee also recommends the Division complete the hearing regulations currently in progress with the Attorney General's Office.
4. The Committee recommends the Division prepare a historical analysis of the restitution dollars distributed to consumers, and a review of the adequacy of the

Division's bonding authority that creates the pool of restitution dollars available for distribution.

5. The Committee recommends the Division prepare a historical analysis of fees, fines, and registrations by type of business collected by the Division and deposited to the State General Fund.

Child and Family Administration

1. Dependent upon the Administrator's desire to split this account and create additional budget accounts on a regional or geographical basis, the Committee recommends that the Division develop specific goals and objectives for this account, as well as refine and expand existing measurement indicators.

Youth Community Services (Child Welfare)

1. The Committee recommends refining the existing mission statement and creating new economy performance indicators to measure and track expenditures versus the performance of staff indicators currently contained in this account. Also, the agency should consider shifting indicators in this account to the Administrative or regional budget accounts.
2. The Committee recommends the agency update the "budget plan" developed by the Division with the latest actual expenditure information, together with the latest caseload projections for the 1997-99 biennium to arrive at an accurate and realistic adjusted base budget.
3. The Committee recommends the Division pursue enhanced or additional federal funding using tools such as the "Maximus contract" to maximize federal funding.
4. The Committee recommends the Division and Department of Human Resources continue the effort to control the costs of Aid Code 61 children and consider moving these costs to the Welfare Division's Medicaid budget.
5. The Committee recommends the Division and the Department of Human Resources provide a joint report to the 1997 Legislature on the work of the Family Resource Centers. The report should include information on the numbers of centers, caseload, cost and accomplishments (S.B. 405 requires a report to the Interim Finance Committee by September 30 of each year on all expenditures made during the preceding fiscal year). The report should detail expenditures of: the one-shot general fund appropriation contained in S.B. 405; Title IV-B - Subpart II Family Preservation and Family Support funds; and "in kind" donations.

ABSTRACT

LEGISLATIVE COMMITTEE FOR THE FUNDAMENTAL REVIEW OF BASE BUDGETS OF STATE AGENCIES (A.B. 194)

The 68th Session of the Nevada Legislature adopted Assembly Bill 194 (Chapter No. 692, *Statutes of Nevada 1995*, pages 2672-2675), which created a process by which the Legislature can perform a complete detailed review of the purpose, goals and resource requirements of state agencies or budget units on a revolving basis. Assembly Bill 194 provided that if the Legislature or the Interim Finance Committee by resolution determined that a base budget review was necessary, the Legislative Commission would create one or more committees to conduct the review(s). Leadership of both houses is required to make the appointments to the committee(s).

The Interim Finance Committee, at its meeting on October 18, 1995, did determine that certain agencies should undergo a fundamental review, and the Legislative Commission, at its meeting of November 28, 1995, created a single committee to conduct the review. The agencies chosen for review were:

| | |
|-------------------------|---------------------------|
| Nevada Highway Patrol | Rural Clinics |
| Office of Equal Rights | Insurance Regulation |
| State Health Laboratory | Consumer Affairs |
| Benefit Services Fund | Child and Family Services |

The Committee, at its first meeting, requested that the Fiscal Analysis Division conduct a staff review of each of the agencies using guidelines approved by the Committee. The Committee held three subsequent meetings to review the staff reports, interview the agencies, take public comment and make recommendations. The Committee adopted 46 recommendations for the eight agencies reviewed covering issues which include revisions to agency missions, goals and performance indicators; accounting procedures; budget adjustments; and, self assessment.

NRS 218.5384 requires the Committee to transmit its report and any related recommendations to the Legislative Commission prior to the next legislative session.

**REPORT OF THE COMMITTEE
FOR THE FUNDAMENTAL REVIEW
OF BASE BUDGETS OF STATE AGENCIES**

I. INTRODUCTION

This report is submitted in compliance with NRS 218.5384(3), which directs the Committee for the Fundamental Review of Base Budgets of State Agencies to submit a report of each review conducted and any related recommendations to the Legislative Commission. Legislators appointed to conduct the review were:

Senator Dean A. Rhoads, Chairman
Senator Bob Coffin
Assemblyman Jack D. Close
Assemblywoman Jan Evans

Assemblyman John Marvel
Assemblyman Larry Spitler
Senator William J. Raggio
Senator Raymond Rawson

This report is submitted to the members of the 69th Session of the Nevada Legislature for their consideration and appropriate actions.

Respectfully submitted,

Legislative Commission
Legislative Counsel Bureau
State of Nevada

Carson City, Nevada
December 1996

II. BACKGROUND AND HISTORY

This report is submitted in compliance with NRS 218.5384 (3), which directs the Committee for the Fundamental Review of Base Budgets of State Agencies to submit a report of each review conducted and any related recommendations to the Legislative Commission.

The 65th Session of the Nevada Legislature (1989) adopted Senate Concurrent Resolution No. 44 which created a Committee to Study the State Budget Process. The Committee recommended and the 1991 Legislature adopted a number of recommendations including requirements that the budget presented to the Legislators include mission statements and program measurement data (performance measures) for each agency and that all budget accounts be segregated into a base budget (last year's actual expenditures), separate decision units which allow for maintaining current program services, and separate decision units for any proposed enhancements or reductions from current services.

The adoption of these recommendations by the Legislature in 1991 set the stage for a fundamental change in the format of The Executive Budget and the way in which the Legislature's budget committees receive, adjust and approve the state budget. Less time and effort is now required to review current expenses and greater effort is directed towards current services (which includes caseload and inflation issues) and enhanced or reduced service levels. This procedural change has allowed the money committees to focus on issues and policy to a greater extent and less on the details of individual expenses. It provides the opportunity to forego micro-management of the programs by the Legislature.

In order to avoid potential problems related to unjustified expenditures in the base budget and the opportunity for agencies to "build the base," the SCR 44 Committee recommended, and the Budget Division has included in their instructions to agencies, a very rigid definition of what constitutes the legitimate base budget for each agency or program. In general, one-time expenditures and expenses that need not reoccur are excluded and expenses of partially implemented programs are annualized and included.

By the 1995 Legislative session, a concern developed that as time marches on the members of the money committees might lose sight of what makes up the base budgets of the various agencies and whether all currently funded programs within the base budget are still necessary or relevant. At the same time, legislation was introduced and given

serious consideration in both the 1993 and 1995 Legislative sessions to require agencies to re-justify their entire budget using zero-based budgeting (ZBB) concepts.¹

The Legislature, in 1995, decided a periodic review of base budgets would be required in order to faithfully discharge its responsibilities to approve state appropriations and authorizations and to eliminate the presumption that an agency will receive at least its actual base fiscal year funding level. The Legislature, by adoption of Assembly Bill 194, created a method for review of base budgets by borrowing some concepts of ZBB but not requiring a full ZBB effort which is quite time consuming and paper intensive.

¹ZBB is a budget building process that requires agencies to justify every single element of their budget every budget cycle.

III. COMMITTEE METHODOLOGY

The 68th Session of the Nevada Legislature adopted Assembly Bill 194 (Chapter No. 692, *Statutes of Nevada* 1995, pages 2672-2675), which created a process by which the Legislature can perform a complete detailed review of the purpose, goals and resource requirements of state agencies or budget units on a revolving basis. Assembly Bill 194 provided that if the Legislature or the Interim Finance Committee by resolution determined that a base budget review was necessary, the Legislative Commission would create one or more committees to conduct the review(s). Leadership of the Assembly and the Senate is required to make the appointments to the committee(s).

The Interim Finance Committee, at its meeting on October 18, 1995, did determine that certain agencies should undergo a fundamental review, and the Legislative Commission, at its meeting of November 28, 1995, created a single committee to conduct the reviews. In addition to providing a thorough review of each agency's base budget, the guidelines allowed the Committee to evaluate whether:

1. The agency's functions are consistent with statutes and regulations;
2. The agency's activities are necessary to achieve statutory goals and objectives;
3. The agency is properly performing its major functions;
4. The functions are being performed economically and efficiently; and
5. Changes to procedures, policies, regulations or statutes may be needed.

The agencies chosen for review were:

| | |
|-------------------------|---------------------------|
| Nevada Highway Patrol | Rural Clinics |
| Office of Equal Rights | Insurance Regulation |
| State Health Laboratory | Consumer Affairs |
| Benefit Services Fund | Child and Family Services |

The Committee, at its first meeting, requested that the Fiscal Analysis Division conduct a staff review of each of the agencies using guidelines approved by the Committee. The Committee held three subsequent meetings to review the staff reports, interview the agencies, take public comment and make recommendations.

IV. FINDINGS AND RECOMMENDATIONS

The Committee held two meetings at which time the staff reviews of each agency were presented by the Fiscal Analysis Division and the agencies were allowed an opportunity to respond to the reports and to justify their budgets. Throughout this process the Fiscal Analysis Division and the agencies were able to come to agreement on numerous technical issues related to appropriate base budget presentations. As a result, the Committee had only to deal with policy questions and unresolved recommendations or issues. At a third meeting, the Committee adopted 46 recommendations for the eight agencies reviewed covering issues which include revisions to agency missions, goals and performance indicators; accounting procedures; budget adjustments; and, self assessment.

The various Committee recommendations are not reported here but are in the Summary of Recommendations at the beginning of this report. For a more complete discussion of each of the recommendations made by the Committee, please refer to appendices A through I which are the Fiscal Analysis Division staff reviews of each agency. These appendices are organized as follows:

Appendices

| | |
|---|-----------------------------------------|
| A | Nevada Highway Patrol |
| B | Rural Clinics - MH/MR |
| C | State Health Laboratory |
| D | Division of Insurance |
| E | Equal Rights Commission |
| F | Benefit Services Fund |
| G | Consumer Affair Division |
| H | Child and Family Administration |
| I | Youth Community Service (Child Welfare) |

Each of the above appendices is included without referenced exhibits or attachments since their size make publishing prohibitive. For a copy of the complete report with exhibits, please contact the Fiscal Analysis Division.

**FUNDAMENTAL
REVIEW OF BASE BUDGET**

NEVADA HIGHWAY PATROL

201-4713

201-4726

201-4728

**DEPARTMENT OF MOTOR VEHICLES
AND PUBLIC SAFETY**

MAY 7, 1996

FUNDAMENTAL REVIEW OF BASE BUDGET

201-4713, 201-4726 AND 201-4728

NEVADA HIGHWAY PATROL

Established in 1908 as Nevada State Police, the Nevada Highway Patrol has had a variety of reorganizations in the last 88 years that placed them under the Public Service Commission in 1948 and then the Department of Motor Vehicles in 1957. During the 1960s an NHP Special Account was created as a method of funding increases in Troopers through a \$6 charge per vehicle registration. However, with the advent of the International Registration Program (IRP), more money was being transferred into the special account than was being collected from the registrations (due to registrations allocated between the states or prorated registrations). The 1995 Legislature corrected this problem with the merger of the Highway Patrol Special account (201-4726) into the Highway Patrol Regular account (201-4713) with full funding of the NHP through a highway fund appropriation.

NHP is responsible for enforcing the traffic laws of the state, investigating traffic collisions, enforcing and regulating motor carriers transporting cargo and hazardous materials, maintaining the state's central criminal history repository and operating the statewide law enforcement message switcher to process criminal justice information. NHP also provides dignitary protection services for the Governor and visiting officials. NHP activities are funded in three budget accounts. The criminal history repository is accounted for in account 101-4709; the main NHP account is 201-4713; NHP federal projects 201-4721, and the Hazardous Materials Program is in account 201-4728. Only accounts 201-4728 Hazardous Materials, and 201-4713 NHP were included in the fundamental review of base budget. However, to truly evaluate the activities of the NHP, some review of the remaining budget accounts is necessary.

Due to limited availability of cost by function information, NHP has elected to segregate their costs into the following programs:

| | |
|-----------------------------|-------------------------------------------------|
| Traffic Enforcement | Commercial Vehicle Enforcement |
| Visible Smoke enforcement | Information Services |
| Dignitary Protection Detail | Hazardous Materials Registration and Permitting |
| Administration | |

The program descriptions, performance indicators and funding mechanism are described by program under Exhibit A.

- I. Mission Statement -- The mission statement for the Highway Patrol meets the recommendations in the Executive Branch's instructions for development of a strategic plan.

- II. Goals and Objectives -- Exhibit B contains the NHP Strategic Plan. Included in the goals and objectives of the Division are the following objectives that would have a budgetary impact on the Division if approved by the Legislature:

Objective 2 of Goal A is to provide 24-hour staffing to every city on an identified major highway. Using the FY 96 staffing as a base, 25 additional Troopers (plus three Sergeants) would be needed to accomplish this goal. Eight additional Troopers and two additional Sergeants are authorized to begin July 1, 1996. This coverage would require 17 additional Troopers and two additional Sergeants for the next biennium if no changes were made in the urban areas. The additional staff from the current biennium will provide a minimum of two Troopers at each substation. **The additional staffing required to meet this objective will be an enhancement in the agency's budget request.**

Objective 8 of Goal A is to conduct a major Crime Interdiction Enforcement Program. In response to a request for additional information, the agency indicated this related to advanced training for Troopers and indicated "There are no personnel permanently assigned to this effort." **The Committee may wish to ask the agency to clarify whether their objective is to conduct a major Crime Interdiction Enforcement Program.**

Objective 1 of Goal D is to implement a statewide computer-aided dispatch system. The Legislature appropriated \$227,650 in FY 96 and \$208,250 in FY 97 (total \$435,900) to implement a statewide computer-aided dispatch system. The agency indicates the equipment is on order and is expected to be received this fiscal year (costs \$221,801.) A Request for Proposal for software is expected to be released May 10, 1996. **This objective should be met through current legislative funding.**

Objective 2 of Goal D is to migrate from the Division's low-band radio system to a new system. **The Committee may wish to ask the agency to explain how this objective interacts with the Telecommunications Study that is currently being performed by the Department of Information Systems. The Committee may also wish to have the agency discuss actions taken to implement the high-band radio system.**

Under Goal H, the Division indicates an objective is to rewrite existing policies and procedures to provide relevancy and accuracy. Currently the agency indicates one person is charged with the overall responsibility for this project. Completion of the project is anticipated by early 1997. After the policies and procedures are implemented, the staff will be used for an inspection program. **The Committee may wish to have the agency explain the procedures used in developing the modified policies and procedures and the advantages of an inspection program. Will the agency use this process as a starting point for accreditation?**

- III. Relevant Statutes -- Generally, the goals and objectives of the NHP are consistent with the statutes. The operation of a Highway Interdiction Program does not appear consistent with

NRS 481.180 which specifies the duties of the NHP. However, as discussed above, the Division indicates the Highway Interdiction Program is an advanced training program.

NRS 481.180 which defines the primary duties of the NHP includes subsection 3 which states NHP is responsible:

“To enforce the provisions of chapters 365, 366, 408, 482, 483, 484, 485, 486, 487, and 706.”

Senate Bill 185 of the 1985 session changed NRS 481.180 from a subsection for each chapter which indicated the specific responsibilities (i.e., “To act as field agents and inspectors in the enforcement of the motor vehicle registration law (chapter 482 of NRS.)”) to the current general reference to each chapter. Senate Bill 185 was approved in conjunction with the Department’s reorganization of the NHP to include the enforcement of the Motor Carrier Safety Program. The Department indicated the changes were completed to eliminate the references to field agents and revenue collectors (NHP collected motor vehicle and commercial vehicle fees while they were part of PSC). However, this amendment may have had unintended consequences. For example, Chapter 483 of NRS relates to drivers licenses and driving schools. NRS 481.180 makes NHP responsible for enforcing the provisions of Chapter 483. In reality, the Drivers License Division is responsible for regulating the issuance and revocation of licenses for drivers and for driving schools. NRS 483.810 (3) also makes NHP responsible for enforcing the provisions of Chapter 408 of the NRS. Chapter 408 of the NRS relates to the operations of the Department of Transportation. NHP only enforces the Department of Transportation’s regulations regarding roadside parks and rest areas. **The Committee may wish to evaluate whether NRS 481.180 should more specifically describe the duties of the NHP.**

- IV. Measurement Indicators -- The agency provided measurement indicators for each of the programs (see Exhibit A). These measurement indicators are summarized for the past five years (when available) under Exhibit C. Generally the reported indicators are output indicators, measuring only the number of activities performed. Much better indicators are included in the Strategic Plan (Exhibit B) as outcomes to the various objectives. **The Committee may wish to have the agency reevaluate the performance indicators to include appropriate outcome indicators referenced in the strategic plan.**

Comparative data from 1993 for other state police or highway patrol in the Western United States is included under Exhibit D. This data was obtained from the Law Enforcement Management and Administrative Statistics Report issued by the U. S. Bureau of Justice Statistics. Generally, Nevada compares favorably to most of the western states. The number of officers per 10,000, however, has decreased from three in FY 93 to 2 in FY 95 (page 3, Exhibit D). To fully evaluate the percent of sworn to total and the percent of sworn responding to calls, the functions listed on page 2, Exhibit D should be reviewed. For example, six of the eight states are responsible for accident investigation, dispatching and traffic enforcement. The remaining two states, Arizona and Oregon are also responsible for

ballistics testing, fingerprint processing and lab tests/substance. (Note the corresponding decrease in percent of sworn responding to calls for those two states.) Only New Mexico and Arizona are not responsible for traffic direction and control. Four of the eight states are responsible for a training academy and five provide Emergency Medical Services.

The figures shown as Operating Expense per Employee and per Sworn do not appear to be based on actual operating costs for NHP. Excluding equipment, capital outlay and reversions to the highway fund, the operating expense per NHP employee would have been \$54,777, and per sworn officer, \$82,830. These revised figures would have made NHP the fifth most expensive per employee or the fourth most expensive per sworn.

NHP information was updated to reflect 1995 data on page 3 of Exhibit D. As indicated previously, the FY 93 data was incorrectly reported. The corrected amounts are footnoted at the bottom of the page.

- V. Agency Regulations -- Only the Hazardous Materials Program of the NHP promulgates regulations. These regulations were set in accordance with the Administrative Procedures Act.
- VI. Financial Analysis -- A meeting was held with the NHP on February 1, 1996, to discuss the fundamental review of base budgets and the information which was needed. This was followed-up with a memorandum asking the information be provided by April 2, 1996. On April 2, 1996, the agency provided their strategic plan and the definition of the various programs administered. These descriptions did not include any administrative functions. On April 9, 1996, the agency provided spreadsheets to combine the costs of the NHP Regular account (201-4713) with the NHP Special account (201-4726) for FY 95, and to project the costs for FY 96. In addition, the agency provided cost allocation worksheets to develop estimated costs per program. Additional information was requested on April 15, 1996. Information on the composition of the line item costs was received April 24, 1996. Below is a sample of the information requested and the response received:

Question:

Please provide detail on in-state travel. What are the purposes of the trips? Are the trips for training, administration or special projects?

Response:

The purpose of in-state travel are administration, personnel functions, the conduct of internal affairs, and vehicle fleet management.

Question:

Printing and copying costs (GL 7040 to 7047) are projected to increase from \$82,902.56 in FY 95 to \$118,048 in FY 96. The primary increase is on photos, prints and maps (GL

7045) which is projected to increase from \$25,038 to \$53,233 (113 percent). Please provide an explanation of the increase.

Response:

The increase is a result of Trooper activity on the road; more collisions and other investigations require the use of more film and subsequent processing. **(The agency is projecting an 8 percent increase in collisions).**

Additional information on the cost allocations between the agency's functions was also requested on April 15 but was not received until 2:00 p.m. April 26, 1996. The analysis below is based upon the limited information received from the agency.

Revenues -- The Nevada Highway Patrol is supported primarily from a Highway Fund appropriation (96 percent of total revenues.) Revenues are also received from the general fund to support the Dignitary Protection Program, from court assessments to support the Switcher, from Emission Control to support the Visible Smoke Enforcement Program, from security contracts for oversized loads or traffic control. The support for the program is not always matched by the costs of the program. For example, the Visible Smoke Enforcement Program is projected to cost \$298,893 in FY 96 with support from the Visible Enforcement Program budgeted at \$185,352. While some excess of projected costs are to be anticipated because only direct costs were funded, the agency's cost allocation method indicates indirect costs are 63 percent of total costs. Below is a table of the programs with their primary areas of support:

FY 95

| Program | Primary Revenue Source | Primary Revenues | Total Expenditures | Difference |
|------------------------|------------------------|------------------|--------------------|------------|
| VSEP | Emm Cntrl Trf | \$201,927 | \$272,807 | (\$70,880) |
| Information Services | Gen Fnd & Crt Assess. | 612,680 | 1,395,469 | (782,789) |
| Dignitary Protection | Gen Fund | 30,762 | 118,752 | (87,990) |
| Commercial Enforcement | Highway fund | 4,211,154 | 4,211,154 | 0 |
| Traffic Enforcement | Highway & Misc | 20,380,929 | 20,380,929 | 0 |
| Unallocated / Other | Highway | 559,792 | 559,792 | 0 |

FY 96

| Program | Primary Revenue Source | Primary Revenues | Total Expenditures | Difference |
|------------------------|------------------------|------------------|--------------------|-------------|
| VSEP | Emm Cntrl Trf | \$185,352 | \$298,983 | (\$113,631) |
| Information Services | Gen Fnd & Crt Assess. | 894,256 | 1,523,209 | (628,953) |
| Dignitary Protection | Gen Fund | 420,947 | 489,761 | (68,814) |
| Commercial Enforcement | Highway fund | 4,709,453 | 4,709,453 | 0 |
| Traffic Enforcement | Highway & Misc | 23,563,908 | 23,563,908 | 0 |
| Unallocated / Other | Highway | 612,046 | 612,046 | 0 |

The Committee may wish to discuss whether the funding level prescribes the level of activity, or the agency prescribes the level of activity and utilize highway funds to pay excess costs? The Committee may remember that highway funds can only be utilized for activities related to highway maintenance, construction and administration.

The Highway Patrol frequently receives grants from the Office of Traffic Safety to support additional overtime for sobriety checkpoints, training courses, and participation in a variety of traffic safety functions. It is the policy of the agency to incur the overtime in the Highway Patrol budget account and then transfer the costs to the Grant budget account. This results in an inability to reconcile the overtime costs recorded in the Highway Patrol account to the quarterly reports on overtime issued by the Personnel Division. **The Committee may wish to have the agency explain the rational for recording the grant programs in a separate budget when the overtime is incurred in the regular budget.**

Expenditures:

Allocation of Costs by Program:

The agency attempted to allocate the cost associated with each program based upon informed estimates of staff and limited availability of data to support the allocation. Developing the cost per program is further complicated by the accounting for certain items.

For example:

- ◆ Rent for the regional offices and some substations is paid for through the DMV & PS Administration budget while rent for other substations is paid for by NHP. The agency is unsure how this came about.
- ◆ Liability insurance for staff is paid from the DMV & PS Administration budget while liability insurance for vehicles is paid by NHP.
- ◆ The cost allocation for the Attorney General charges is recorded in the Director's Office budget account (4706) while the cost allocation for the General Fund administrative services is recorded in the NHP account.
- ◆ Utilities for the substations paid for by NHP are recorded in the utilities category. However, utilities may be recorded in category 04 as a "result of a lack of adequate authority" in the utility category.
- ◆ Utilities for the Snyder Way training facility is paid by NHP; rent for the dormitories at Stewart are paid by NHP. However, the training facility and the dormitories are used by POST and their trainees - not all of whom are NHP cadets.
- ◆ The costs associated with Information Services are spread over a variety of budget accounts and categories. Staff is funded from 4713, CHR-4709, and HazMat-4728. Costs of some equipment is in category 05, while other equipment is in category 15. Payments on leases and on maintenance agreements are split between the three budget accounts.

In addition to the above problems with cost allocation, it appears that costs recorded in budget account 4713 may not be recorded to the appropriate category at the time of the transaction. A review of the financial schedules which summarize costs by category indicates very low or no year-to-date costs for Brady Bill, Visible Smoke Enforcement and Governor's Security; however, the agency indicates the full appropriation will be spent. When asked to explain their projection method for the Visible Smoke Enforcement Program, the agency responded "Category 24 was not annualized. Projected expenditures are the legislative-approved budgeted amount. Savings may be experienced in this category although on-going research may result in additional costs being journal vouchered to this category. Pertinent operating costs are allocated based on the personnel allocation formula."

Based upon the above information and weaknesses in the accounting system, the costs which are shown by program are informed guesses at best. The Committee may want to have the agency discuss the problems in developing costs by program.

Visible Smoke Enforcement

This program is funded through a transfer from the Emissions Control account. Four Troopers are funded to look for vehicles which are emitting "visible smoke." As indicated in the revenue section of this report, the projected cost of this function significantly exceed the costs which were estimated during budget preparation. The program is projected to issue a total of 1,385 repair orders and citations during FY 96. With four staff, this represents just over one and one-half repair orders or citation per work day (220 work days used). The agency indicated other Troopers may enforce emission laws, but those enforcement activities would be very minimal. **Given the relatively low number of citations and mechanical repair orders issued, the Committee may want to re-evaluate the need for this program. How does the NHP Visible Smoke Enforcement Program interact with the new Clean Air Act requirements currently being implemented by the Emission Control Program?**

Information Services

As indicated above, the costs for staff, equipment and maintenance for the Information Services program are spread over three budget accounts. The Information Services program is considered the "Public Safety" Computer system. As such, staff are used on a variety of public safety issues. Below is a schedule showing the application programmers hours for FY 95 and FY 96 and the number of application programmers funded by program:

| | FY 95 Hours | % of Total | FY 96 Hours (3/31/96) | % of Total | Staff Assigned |
|----------------------------------------|----------------|---------------|-----------------------------|---------------|-------------------|
| NV Div. Of Investigation | 924.50 | 17.32% | 18.50 | 0.31% | |
| NHP | 434.00 | 8.13% | 1,666.75 | 27.57% | 4.00 |
| CHR | 1,748.00 | 32.74% | 1,392.25 | 23.03% | 1.00 |
| Div. Of Emer. Mgt. | 168.00 | 3.15% | 158.00 | 2.61% | |
| Parole and Probation | 43.50 | 0.81% | 937.00 | 15.50% | |
| Administration (NHP) | 1,925.25 | 36.07% | 1,777.25 | 29.40% | |
| Total | 5,338.25 | ** | 6,045.75 | ** | 5.00 |
| ** Does not total to 1 due to rounding | | | | | |

The Committee may note that NHP pays for 80 percent of all application programmers. However in FY 95 and FY 96, they received 44 percent and 57 percent of the productive time available for all programmers. Nevada Division of Investigation, Division of Emergency Management, and Parole and Probation, all non-highway funded agencies had 21 percent and 18 percent of the available time dedicated to their projects in FY 95 and FY 96 respectively. The agency did not have readily available statistics on the time dedicated by the operations

staff to the various programs. However, they indicated it would be possible to develop operations usage and programmer usage. **The Committee may wish to have the agency discuss the advantages and disadvantages of establishing the Public Safety Information Computer Program as a separate budget account. Would the agency be able to develop cost allocation between the various programs within the Department? The use of court assessments is to pay for non-highway agencies use of the Public Safety Information System. Would the program be able to develop costs by user?**

Dignitary Protection

The Committee may remember enhancing the existing Dignitary Protection Program during the FY 95 legislative session. The number of positions authorized for the program was increased from one to six. In addition, a separate category was established to account for the costs of the program. As indicated above, the NHP does not track costs of programs when the expenditure occurs. Current projections indicate the Dignitary Protection Program costs will exceed the appropriation budgeted from the general fund by \$68,814. This amount is being funded through the Highway Fund authorization. **The Committee may wish to have the agency discuss this cost over-run. What is the cause of the excess costs? What controls have been put in place to limit the costs? Will the agency be approaching the Interim Finance Committee for an additional appropriation to support the program? Would it be possible to establish this program in a separate budget account since the staff in this program have distinct functions which are not generally commingled with general Patrol activities?**

Commercial Enforcement

This program is responsible for enforcing the laws relating to commercial transports. This program works closely with the Hazardous Materials program to perform checksite operations, road patrol and terminal inspections. Essentially staffing is comprised of 41 Troopers, 8 Sergeants and approximately seven civilian inspectors. Including the twelve Trooper positions in the Hazardous Materials account, 53 Troopers are assigned to this program. Allocation of costs between this program and the Traffic Enforcement Program by manpower is logical because the objectives of the two programs are similar and only the target audience varies (commercial vehicles versus private vehicles). This program includes seven commercial vehicle inspectors, four paid by the federal Motor Carrier Safety Assistance Program (MCSAP), and three administrative personnel funded through MCSAP. **This program should be reviewed with the Hazardous Materials Program, below.**

Hazardous Materials

The Hazardous Materials account was established by the 1987 legislature. Twelve Troopers, two data processing personnel and two administrative staff were authorized. The number of Troopers authorized for this account was the agency's estimate of the full-time equivalent of Troopers which would be needed to inspect hazardous materials transporters. In reality, a team approach is utilized to assure maximum use of available resources. For example, the Division intends to inspect 8,885 commercial vehicles of which 800 must be commercial

(not school) buses, 977 must be hazardous material transporters, 533 must be screened by drug detection canines. The objectives of the Hazardous Material Enforcement Program are achieved concurrently with all other objectives.

The separate account was established to allow the NHP to register hazardous materials transporters and charge a registration fee which would cover the cost of enforcing hazardous material transport regulations. The 1993 Legislature authorized Nevada to participate in the Uniform Hazardous Materials Transportation Pilot Project. One Program Manager was authorized to implement the Pilot Project. The Project was a cooperative effort sponsored by the National Governors Association and the National Conference of State Legislators to develop uniform hazardous materials transport regulations. The objective was to increase regulation of hazardous materials transporters while reducing the administrative burden on the transporter. The Pilot Project developed "base state" registration regulations which required the transporter to register with their base state. The base state is responsible for inspecting the transporter and ensuring compliance with the regulations. The base state also collects pro-rated fees for other states in which the transporter operates. Due to the double apportionment fee allocation method, the state has seen a significant decrease in the fees collected from transporters. **This program is no longer self-supporting. The Committee may wish to evaluate the feasibility of transferring the twelve Troopers back to the NHP account to recognize their cooperative efforts with the commercial enforcement activities. The account could be maintained and would be self-supporting for the administrative functions (licensing and regulations).**

Traffic Enforcement

Traffic enforcement is the primary program of the Highway Patrol. Seventy-three percent of the sworn staff are assigned directly to traffic enforcement. This involves patrolling the highways, issuing citations, assisting motorists, investigating accidents and traffic control.

In addition, Troopers provide public education and information programs by appearing at schools, special events and other public activities. The issues related to traffic enforcement have been addressed in the goals and performance indicator sections.

Unallocated or Other Program

These are costs which the NHP has determined cannot be directly allocated. This includes costs for the Hazardous Materials program (which is not identified in the NHP regular account-4713), the academy and internal audit staff and support. While these costs exceed \$559,793 (or 2 percent of the total projected cost) in FY 96, Fiscal Division staff was not provided with the information in sufficient time to analyze the costs and the programs associated with the costs

Analysis of Expenditures by Category

Salaries

NHP sworn personnel received a two pay-grade increase during the 1995 Legislative Session. In addition, all staff received the 5 percent cost of living raise given to all state employees. These two salary increases, combined with a 4 percent increase in authorized personnel are responsible for the 17 percent increase in personnel costs. In recognition of the law enforcement needs and the compounding problems of vacant positions, the 1995 Legislature authorized elimination of all vacancy savings. As a result of the elimination of vacancy savings, the agency was able to achieve almost full staffing by the end of FY 96.

The agency recently moved a pilot from Las Vegas to Reno. NHP indicates this is to consolidate air traffic operations. **The Committee may wish to have the agency discuss this consolidation. Was a cost benefit analysis completed? Will air traffic operations be continued in Las Vegas? Will additional cost be incurred to consolidate the operations?**

Overtime

Overtime for budget account 4713 is projected to be \$2,319,981 for FY 96, an increase of approximately 10 percent over FY 95. As directed in a letter of intent from the Assembly Committee on Ways and Means, the agency has been reporting the causes of overtime on a quarterly basis. The following table represents the overtime generators for the period July 1, 1995 to December 29, 1996:

| | Generator | Sum Of | % of |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|---------------|----------------|
| | | Hours | Total |
| The Committee may wish to have the agency indicate the control procedures which have been implemented over the use of overtime. Given the additional staffing provided by the 1995 Legislature and the relief from the vacancy savings requirements, can the Committee expect overtime costs to decrease in FY 97? | Accidents | 2,163 | 5.56% |
| | Administration | 5,807 | 14.92% |
| | App Prgm/prb | 39 | 0.10% |
| | Arrests | 1,721 | 4.42% |
| | Court | 2,855 | 7.34% |
| | Dig. Protect. | 2,341 | 6.01% |
| | Holiday Cover | 11,310 | 29.06% |
| | MCSAP | 649 | 1.67% |
| | Motor Assist | 251 | 0.65% |
| | Network Prblms | 169 | 0.43% |
| | OPS Coverage | 2,361 | 6.07% |
| | OTS Grant Prj | 610 | 1.57% |
| | Other | 1,631 | 4.19% |
| | Public Info | 797 | 2.05% |
| | Security Cont. | 2,506 | 6.44% |
| | Training | 3,368 | 8.65% |
| | Unknown | 16 | 0.04% |
| | Veh/Radio Svc | 331 | 0.85% |
| | Total | 38,923 | 100.02% |

In-State Travel

Due to a lack of information provided, Fiscal Division staff was unable to analyze the need for in-state travel. Based upon the travel costs for the past three fiscal years, travel is not directly related to levels of activity and can be controlled:

| | |
|-------|----------|
| FY 94 | \$60,502 |
| FY 95 | \$53,312 |
| FY 96 | \$48,459 |

Operating Costs

The NHP is projecting \$57,785 in cellular telephone charges for FY 96. Fifty-four cellular phones are used by the agency. Compared to the \$95,027 projected for regular telephone charges, maintenance and repairs, it appears cellular telephone charges may be an area for potential savings. The agency does not have a specific policy for cellular phones, other than the general state rules - no personal calls, no toll calls with reversed charges and bill monitored monthly for abuse. **The Committee may wish to have the agency discuss the use of cellular phones versus radio or land-bound phones.**

In December of 1994 the Interim Finance Committee approved a re-organization of the DMV & PS which combined the Peace Officers Standards Training (POST) with the NHP Academy. This reorganization was proposed to coordinate training requirements for law enforcement. The Committee may remember that POST is responsible for providing basic law enforcement training and certifying continuing law enforcement training. Since that time the NHP has sponsored a Police and Staff Command Course which was attended by a variety of law enforcement officials from both in and out of state. In addition, the NHP is scheduling training for Traffic Accident Reconstruction for state and non-state personnel. NHP indicates they are the appropriate agency to staff and coordinate the training because they are the state's premier traffic law enforcement agency. NHP further indicates POST is more involved in general law enforcement issue than traffic. **The Committee may wish to discuss whether sponsoring and coordinating training for agencies other than NHP is an appropriate function of NHP.**

- VIII. 1995 Enhancements -- Two of the enhancements approved by the 1995 Legislature have previously been discussed - the Dignitary Protection Program and Computer Aided Dispatch system. No other significant enhancements were authorized by the Legislature.
- IX. Alternatives -- During FY 96 the agency experimented with four ten-hour shifts versus the normal five eight-hour shifts. The experiment was done at the request of the employees. The agency provided the following comments on the alternative work week:

The program began in a few select areas on July 1, 1995. These tests continued through September 30, 1995; however, the results were not conclusive due to approximately forty vacant sworn positions which were in the process of being hired and trained. Specifically, some activities were higher than the previous year, some were lower, and it was not possible to clearly say whether the 4X10s were working. The administration decided to go forward with full implementation of the 4X10 shifts effective October 1. By the end of December 1995, it was clear that the activity was not being maintained. There were also indicators that coverage had decreased. Despite notification to the field force that activity and cover would need to increase to continue the 4X10 shifts, activity did not increase and all personnel were returned to the 5X8 shifts.

The agency concluded the argument for 4X10 shifts would lean heavily on the fact that, in their limited experience, overtime was reduced. The argument against the 4X10 shifts would rest on the reduction of Trooper initiated activities such as motorists assisted and enforcement which are reflective of reduced Patrol coverage.

- X. FY 98/99 Base Budget -- Sufficient detailed information was not received from the agency to allow Fiscal staff to evaluate which items should be adjusted in development of the base budget. However, the information did reveal several accounting and recording practices which should be reviewed when preparing the base budgets.

**FUNDAMENTAL
REVIEW OF BASE BUDGET**

**RURAL CLINICS
101-3648**

**DIVISION OF MENTAL HYGIENE
AND MENTAL RETARDATION**

**DEPARTMENT
OF HUMAN RESOURCES**

MAY 7, 1996

FUNDAMENTAL REVIEW OF BASE BUDGET

101-3648

RURAL CLINICS

The Rural Clinics Program is listed in NRS 433.233(1.e) as a separate operating agency in the Department of Human Resources' Division of Mental Hygiene and Mental Retardation. The agency is responsible for the delivery of state mental health services in 15 of Nevada's 17 counties (Washoe County and Clark County are not included).

The agency provides a variety of services to adults and children in rural Nevada. In calendar year 1995, a total of 3,080 clients were admitted for services. Of the total number of clients, 849 or 27.6 percent were children and 2,231 or 72.4 percent were adults.

The agency operates with their administrative support office staff housed at the Nevada Mental Health Institute in Sparks and clinical offices in Carson City, Douglas County, Elko, Ely, Fallon, Hawthorne, Tonopah, Winnemucca, Dayton and Yerington. The 1995 Legislature provided funding for an additional office in Lovelock, Battle Mountain, Fernley and Silver Springs.

Services offered to clients may vary by location but may include the following: outpatient, day treatment, housing support, medication clinics, case management, crisis services, consultation to community service agencies, referrals for inpatient hospitalization and clinical evaluation for local agencies.

- I. Mission Statement--The agency provided a copy of the limited mission statement that appeared in The 1995 Executive Budget and a more current mission statement (see Attachment A). The statement is more of a program description than mission statement. **We recommend that the agency write a new mission statement using the guidelines developed in the Budget Division's training program.**
- II. Goals--The agency provided a list of seven goals. **The goals appear very vague and may be impossible to meet.** For example, Goal #1 states "We will meet the mental health needs of Nevada's rural population." Setting short and long term goals that they can strive to meet and then measure would be valuable for the agency. Having objectives along with the goals would also be helpful. (See Attachment A)
- III. Performance Measures--The agency has expanded the list of performance indicators contained in The 1995 Executive Budget. **While the updated indicators are more detailed and evaluate types of service, no standards of comparison or goals are included on which to judge the agency's performance.** (See Attachment B)

Service Definitions--The agency has presented a narrative description of the types of services offered to clients and some very detailed monthly caseload data by type of services and office location. The data is helpful in monitoring service caseload and points out some problem areas.

Waiting Lists--One area of concern is waiting lists for services in rural Nevada. The agency has two waiting lists. Waiting List #1, which lists citizens waiting for services, moved from 188 in December to 288 in January and 239 in February 1996. The waiting list for clients seeking medication clinic services numbered 53 in February which raises some concern since medication assists clients in maintaining a stable living environment in the community.

By office location, the waiting lists for outpatient services appear to be the largest in Carson City (72 in January), Hawthorne (36 in January); Fallon (18 in January), Elko (35 in January), Douglas County (50 in January) and Lyon County (69 in January).

New Offices

The Legislature provided funding for the opening of a number of new offices including:

| <u>Location</u> | <u>Budgeted Opening Date</u> | <u>Status</u> | <u>Anticipated Caseload</u> |
|-----------------|------------------------------|---------------------|-----------------------------|
| Lovelock | October 1995 | Open February, 1996 | 113 |
| Battle Mountain | February 1996 | Open May 1996 | 162 |
| Silver Springs | April 1996 | Open July 1996 | 105 |
| Fernley | October 1995 | Open January 1996 | 109 |

Will the opening of these new offices relieve the pressure of the waiting lists in larger communities noted above? Why the delay in opening the new offices?

- IV. Agency Regulations--The Rural Clinics program is governed by appropriate federal law, state law and agency regulations. Agency regulations are developed for the entire Division of Mental Hygiene and Mental Retardation and not just for Rural Clinics.
- V. Revenues--For FY 1996, the agency will have received more than 68 percent of its support from the general fund; 20 percent from federal grants or federal reimbursements of services provided to eligible clients; 9 percent from client collections and insurance payments; and 3 percent from other funding sources.

It is anticipated additional general fund support will come from salary adjustment funds to support the 5 percent salary increase for classified employees effective July 1, 1995, approved through passage of Senate Bill 577.

Potential Revenue Problems

In reviewing the agency budget status report dated February 29, 1996, a number of potential revenue problems were revealed that should be a cause of concern to the agency. Under collection in client payments of \$49,449 and insurance payments of \$46,145 has been projected. In addition, Medicaid case management revenue is projected to be short \$21,059 and contract service reimbursements short \$47,324. The HUD Shelter Plus Care Grant is also projected to be under budgeted levels by \$93,466.

The agency is anticipating client collections of \$163,823 in FY 1996, which is less than the \$180,424 actually collected in FY 1995. The agency indicated, during budget construction, they expected to collect \$213,272. It should be pointed out the 1995 Legislature approved adding 12.50 new positions to the agency and included the opening of four new offices. The Legislature agreed to increase the accounting staff in Carson City and the clerical staff in Tonopah to provide expanded office coverage and to increase billings. **The agency needs to explain why billing and collections are a growing problem, especially since the Legislature added new and expanded resources and positions.** It appears a number of the Rural Clinics' offices are bringing in less revenue than the previous year indicating they may be behind in billings or other problems exist.

The agency should also explain the apparent shortfall of \$93,466 in the HUD Shelter Plus Care Grant.

If the agency does not improve its revenue collection activities, it could face a budget deficit in FY 1996, which may carry over to FY 1997 and be even worse since the agency should be at full staff for the entire fiscal year and expenditures will be higher

VI. Expenditures

Prior Budget Reductions--The agency is in the process of rebuilding many services lost to the Governor's budget reductions in FY 1992 and FY 1993. In FY 1993, the agency was required to reduce \$557,501 in general fund appropriations and an additional \$41,000 in other funds. The agency had 93 authorized positions in FY 1991 and lost 17.5 positions in FY 1992. The result of the budget reduction was to close Rural Clinics offices in Caliente, Wendover, Tonopah, Fernley, Lovelock, Battle Mountain and South Lake Tahoe. Services were reduced to many other communities and the agency cut services to approximately 711 active cases or 2,000 clients per year.

AIMS--Additional funding for the expansion of the Division's Advanced Institutional Management Software System (AIMS), to Rural and northern Nevada was provided through passage of SB 211. The system provided client tracking, appointment scheduling, billing and pharmacy data. Funding of \$392,521 was provided for the completion of AIMS. **The project is underway; however, the Committee may want a status report.**

Staffing and Administrative Office--The 1995 Legislature increased staffing from 76.50 FTE positions to 89 FTE positions. Total funding was increased 10 percent in FY 1996 and an additional 5.4 percent in FY 1997.

One position added by the 1995 Legislature was the restoration of the Rural Clinics Director position from half-time to full-time. The agency's administrative support staff was moved to the Nevada Mental Health Institute in 1993 as part of a continuing budget savings for the agency. The 1993 Legislature was concerned about the move to the Institute and the loss of ongoing adequate support of the Rural Clinics' operation throughout the state. A letter of intent was issued to report to the Interim Finance Committee concerning that level of support. **The agency is still at the Nevada Mental Health Institute and the agency should comment on the appropriate location of the administrative and support operations and whether the staff in rural Nevada feel they are receiving adequate central support.**

Overall Expenses--Overall, the agency anticipates budgetary problems in FY 1996 due primarily to the projected revenue shortfalls plus greater than anticipated expenses. The agency has a projected negative figure of \$138,223 in salaries; however, this figure should be reduced or eliminated once the Budget Office releases salary adjustment funding to offset the cost of the 5 percent pay raise. The agency has the potential to receive salary adjustment funds of up to \$179,570. The total projected budget deficit is \$314,156, which would be reduced to \$175,933 once the salary adjustment funds are added.

Overtime Expenses--The agency was requested to provide overtime and standby pay expenses by office location. The data shows Fallon's overtime and standby pay both in FY 1995 and FY 1996 was significantly higher than the offices in other locations. In FY 1995, Fallon had over 48 percent of the agency's overtime and is over 57 percent thus far in FY 1996. **The agency should explain the need for overtime and standby pay in the rural offices and why the Fallon office is so much higher than the other offices.** The agency was budgeted \$3,123 in FY 1996 for standby pay; in FY 1995, they spent \$7,875 and have expended \$5,254 through February 1996.

Vacancy Savings--The agency has vacancy savings of \$221,372 in FY 1996. They indicate they have not had to hold positions vacant to achieve the required vacancy savings.

Out-of-State Travel--The agency was not budgeted directly for out-of-state travel, but three employees did travel out of state on state business in FY 1995. Costs were paid from a separate Division of Mental Hygiene and Mental Retardation Training budget or from a federal grant.

In-State Travel (03)--In FY 1995, the agency was budgeted \$47,969 for in-state travel and spent \$41,536 for a savings of \$6,433. In FY 1996, \$48,175 was budgeted, and it is anticipated \$47,634 will be expended. Travel funds are allocated to the various offices.

The agency uses the State Motor Pool and seven agency-owned vehicles, three of which are not in service due to their condition. The agency does not anticipate removing the vehicles due to their condition and age. The agency should explain how the office operates with a limited number of agency-owned or rented vehicles. The Fallon, Douglas, Tonopah, Winnemucca and administrative offices do not have either a Motor Pool or agency vehicle.

Operating Expenses (04)--Overall, the agency underspent its operating category by \$27,979 in FY 1995, and they anticipate underspending their \$499,884, FY 1996 operating budget by \$28,890.

Contract Services--To augment their staffing, the agency uses contract services paid out of the operating category and other categories when appropriate. In the operating category, the agency anticipates spending \$20,208 mainly for janitorial, clerical and some advisory services. The agency was budgeted to spend \$44,895 in FY 1996 and spent \$30,459 in FY 1995.

Cellular Phones--In FY 1995, the agency had 11 cellular phones and this has increased to 14 in FY 1996. The agency anticipates spending \$4,806 in FY 1996 and they do have a policy to cover usage. Expenses are monitored monthly by phone.

Rents--The major expense in the operating category is for other and state-owned building rents. The agency anticipates spending \$263,693 in FY 1996 of the \$276,065 budgeted.

Vehicle Operation--The agency anticipates spending \$11,588 for vehicle operating which is \$5,115 more than the \$6,473 budgeted. They spent \$8,074 in FY 1995.

Medical and Dental (Category 40)--This is normally an operating expense, however, often it is placed in a separate category when it is large or unique to the operation of an agency. Category 40 is used to pay for medication expense and is budgeted at \$43,662 in FY 1996. In FY 1995, the agency spent \$38,769 for medication. **The agency should explain when state funds are used to purchase medication for clients.**

Equipment--The agency is purchasing equipment, using funds from three separate categories depending upon the purpose of the equipment. Regular equipment, in support of the operation of the office, comes from category 05 and is budgeted at \$52,128. Additional data processing equipment is paid for from the "Information System" category 26 or from the SB 211 one-shot appropriation category 50. In category 26, the agency anticipates spending \$65,054 and in category 50, they plan to spend the entire \$23,259 special appropriation for equipment or computer hardware. The total anticipated purchases for all types of equipment including computer hardware is \$140,441. Equipment

purchases in the base year (FY 1996) will be removed from the base and agencies will be required to justify future equipment purchases as an enhancement in the new budget.

Professional Services--The Rural Clinics' program has historically taken funds allocated for a vacant Senior Psychiatrist position plus funding provided directly for contract services and used the funding to provide psychiatric services in rural Nevada. The funds are paid out of a separate professional service category and is allocated \$417,237 for FY 1996. The Rural Clinics' program uses both private psychiatrists and psychologists through an interlocal agreement with the University of Nevada School of Medicine. For individual contract psychiatrists the agency is paying \$95 an hour for clinical services and \$45 per hour for travel time. **The agency should discuss the merits and benefits of using contract psychiatrists rather than state psychiatric employees. A state Psychiatrist Range C receives pay under the shared retirement system of \$114,220 annually or \$54.70 per hour.**

Expenses in the category have increased as follows: \$262,053 in FY 1993, \$267,189 in FY 1994, \$284,520 in FY 1995 to \$408,803 projected in FY 1996.

Transitional Living--The agency provides housing assistance to clients who have difficulty in supporting themselves in the community. This program has grown from \$17,708 in FY 1994 to projected expenses of \$123,839 in FY 1996. As of February, the agency had 16 clients in SLA's (Supported Living Arrangements) at an average state cost of \$552 per month. As of February, the agency was paying for clients in Carson City, Elko, Fallon and Yerington. Does the agency plan to have SLA placements in all communities if possible and how long do clients stay on this program? Is there a waiting list for these services?

The agency indicates performance of its one SLA contractor is monitored by case management staff contacting the client at least monthly. Treatment plans are reviewed every ninety days. **What are the results of the program and the performance of the contractors?**

Alternatives

Children's Services--The Rural Clinics' program provides services to children ages, 0-17, in rural Nevada. For the year ending December 31, 1995, the agency served 456 clients ages 0-12, and 393 clients, ages 13-17. **The role of the agency in the delivery of these services to children and the responsibility of the Division of Child and Family Services should be discussed. Which agency or division is the appropriate agency to deliver needed services to children in rural Nevada.**

Expanded Services in rural Clark County--The 1995 Legislature was concerned about the mental health needs of citizens living in rural communities in Clark County. The Legislature issued a letter of intent to the Division of Mental Hygiene and Mental Retardation to evaluate the needs in rural Clark County including Mesquite and Logandale

and determined whether the Rural Clinics program or the Las Vegas Mental Health Center should be the primary agency to provide services to those rural communities.

**FUNDAMENTAL
REVIEW OF BASE BUDGET**

**STATE HEALTH LABORATORY
101-3221**

**DEPARTMENT
OF HUMAN RESOURCES**

MAY 7, 1996

FUNDAMENTAL REVIEW OF BASE BUDGET

101-3221

STATE HEALTH LABORATORY

- I. General Background Information--The State Health Laboratory was statutorily established in 1909 at the University of Nevada, Reno. The purpose of the laboratory was for the diagnosis of infectious diseases and to conduct research into the nature, cause and control of such diseases.

In 1939, the Legislature transferred the Laboratory from the University to what has now become the State Health Division (organizationally called the Department of Health at that time). The Laboratory's scope of responsibilities was expanded to include the necessary examinations and analyses of water, natural ice, sewage, milk, food and clinical material. The Legislature also authorized the Health Division to establish branch laboratories as they became necessary. In 1957, a branch laboratory in Las Vegas was established and provided a limited number of clinical and environmental microbiology testing services.

In 1977, a 10,000 square foot facility was constructed with federal Hill/Burton Act funds on the University of Nevada, Reno campus where the Laboratory is currently located.

In 1990, the Las Vegas branch laboratory was closed and the testing services provided were assumed, in part, by the Reno facility and by a private-sector laboratory in Las Vegas through a contractual relationship with the State Health Division.

The 1993 Legislature approved a \$2.4 million capital improvement project (93-C1) to expand the Reno facility by approximately 8,500 square feet. The expansion was approved to provide the Laboratory adequate capacity to accommodate testing workload which had increased significantly since the facility was first constructed and to expand capabilities to meet the Safe Drinking Water Act's (SDWA) testing and surveillance requirements. The expansion also enabled the Laboratory to address potential OSHA working condition hazards which were in jeopardy of violation due to existing space limitations. The laboratory expansion was completed in late 1995.

The 1995 Legislature approved a one-time appropriation (S.B. 212) in the amount of \$1,223,284 to outfit the Laboratory's expanded facility, to install a fully automated laboratory information system and to purchase new and replacement equipment. The new equipment approved will expand the Laboratory's testing capabilities for synthetic organics, nitrates and nitrites, radon and allow for more extensive testing of milk products.

- II. Mission Statement--The State Health Laboratory's mission statement presented at the January 29, 1996 meeting is consistent with NRS 439.240, the statute that authorizes the laboratory

program. As clarification, the State Health Laboratory is not a research facility and does not conduct original research that could be interpreted from the following statement in NRS 439.240 Subsection 2(c): to conduct research into the nature, cause diagnosis and control of diseases. The State Health Laboratory provides a wide variety of clinical and environmental testing services. The data generated from the testing services provided is used for a number of purposes by the laboratory user that may include research.

- III. Goals--The Health Division is the primary agency responsible for promoting and protecting public health as articulated in the Nevada Strategic Plan 1995-1999. To achieve this goal, the Division has developed various strategies by specific program areas. The one strategy which directly pertains to the State Health Laboratory is to provide clinical and environmental laboratory services that address the public health and environmental concerns of the people of Nevada in an accurate, timely and cost effective manner. The specific responsibilities to implement this strategy include providing clinical and environmental laboratory testing services, certifying private laboratories for analysis of contaminants regulated by the Safe Drinking Water Act, providing surveillance of the dairy industry and providing reference services to all laboratories for tests of a public health concern.

The Committee should note, the Safe Drinking Water Laboratory Certification program which historically has been a State Health Laboratory program responsibility will gradually be transferred to the Health Division's Bureau of Health Facilities. The Health Division feels the transfer is logical for two reasons. First, one of the Bureau's primary regulatory responsibilities include the licensure and certification of medical laboratories and personnel and second many private environmental laboratories view the State Health Laboratory as a competitor. The Division's goal is to have the program totally transferred by January 1997.

With passage of A.B. 580 by the 1995 Legislature, the Laboratory Certification program will be significantly expanded. Assembly Bill 580 requires an on-site evaluation and inspection of all laboratories requesting certification under the Safe Drinking Water and Clean Water Acts regardless of their location. **The Division plans to approach the IFC before the close of the fiscal year to request additional staff and program resources for the Bureau of Health Facilities budget to meet the A.B. 580 requirements.** It should be noted, the additional resources will also be used to address the existing backlog in Laboratory Certification requests. As of March 1996, 18 Laboratory Certification requests were pending. Some of the requests are more than 12 months old. **The expanded certification program will be supported through the assessment of fees to the industry.** Since the State Health Laboratory's role for the certification program will be gradually eliminated, expenditures related to this program activity will be reduced from the Laboratory's 1997-99 biennial base budget.

- IV. Performance Measures--The performance measures presented at the January meeting are workload based, i.e., number of specimens received, the number of tests performed on

specimens received and the number of Laboratory Certification requests received. **The existing measures do not address outcomes.** The Division is proposing two additional measures as follows:

- A. No more than one validated complaint per month concerning the timeliness or accuracy of a specific test.
- B. The laboratory will maintain full certification in every test center as required by law/regulations. This includes certifications from the U.S.E.P.A. under the Safe Drinking Water and Clean Water Acts for both chemistry and microbiology; the Clinical Laboratory Improvement Amendments of 1988 for medical microbiology; and FDA certification for milk and dairy product testing.

Accuracy and timeliness are the litmus tests for measuring the performance capabilities of a laboratory. The information obtained could be valuable in determining the State Health Laboratory's performance depending on whether complaints are formally made, how a complaint is validated and how the complaint is reported.

Currently, the State Health Laboratory is certified in the areas delineated in the proposed performance measure B with the exception of several Safe Drinking Water Act parameters (synthetic organics) which require specialized chemistry equipment the laboratory is not outfitted with at this time. The Laboratory plans to use a portion of the \$1.2 million one-time appropriation to purchase the required chemistry equipment; however, full certification from the EPA is not anticipated until late FY 97.

Trends--The Laboratory's testing specimen workload has progressively decreased every year since FY 94 (based on more definitive workload information included in the annual report summarized in Attachment A). The reduced workload has been experienced in both the microbiology and chemistry sections of the Laboratory; however, it is most pronounced in the environmental water chemistry testing area. For example, the environmental chemistry specimen load decreased by approximately 13 percent in FY 95 compared with FY 94 and based on current trends will decrease by another 17 percent in FY 96 compared with FY 95. To a limited degree, the number of testing parameters (exams) conducted on the reduced specimen load has not decreased at the same rate. The decreases in specimen load have significantly reduced the Laboratory's ability to generate the level of fees/revenues included in the legislatively approved budget to offset operating costs. The budget impact on the reduced collection of fees will be fully addressed in the revenue section of this report.

Reorganization--As previously indicated, the Safe Drinking Water Act Laboratory Certification program will gradually be transferred from the State Health Laboratory. The Division should consider including a measurement for whichever program assumes this function which specifically delineates an appropriate time frame for conducting an

evaluation, inspection and issuing a certification finding/s to a requesting laboratory. As indicated in the Goals section, a significant Laboratory Certification backlog exists which will most likely not be fully addressed until additional resources are acquired. A measurement indicator which monitors this program activity will shed insight into the progress of reducing the backlog and for meeting A.B. 580 requirements.

Productivity--The State Health Laboratory currently uses an assessment tool called a work time unit (wtu) to compare the output (productivity) of the laboratory on a year-to-year basis. The wtu is based on standardized analytical methods used in public health laboratories; however, they are not yet sophisticated enough to account for the variations in operating procedures between laboratories. The wtu has also not been refined to a point to allow for making staffing to workload ratio comparisons. **It is recommended the Laboratory continue refining the wtu assessment tool so in the future it can be used as a valid measurement indicator for making staffing determinations, for conducting productivity comparisons between public health laboratories and for establishing a productivity standard with which year-to-year performance can be compared.**

- V. Agency Regulations--The State Health Laboratory promulgates regulations that primarily deal with fees charged for testing services rendered (NAC 439.500-439.590) and for requirements concerning the Laboratory Certification program (NAC 445A.055-445A.084). The regulations pertaining to the Laboratory Certification program are currently in the process of being modified to address A.B. 580 requirements. The Division has held two public workshops in the north and south. The industry has been provided copies of the proposed regulations with modifications addressing their concerns expressed at the workshops and have been requested to respond with any additional input no later than May 1. It is anticipated the draft regulations will be submitted to the Legislative Counsel Bureau for legal review in early May.
- VI. Revenues--The State Health Laboratory's operating budget is supported by a general fund appropriation (51 percent), testing fees (47 percent) and a small federal allocation from the T.B. Elimination grant (2 percent). The amount of general fund support was increased for the 1995-97 biennium from 42 percent to 51 percent when compared with the 1993-95 biennium. The primary reasons for the increase were the loss of federal Safe Drinking Water and Sexually Transmitted Disease grant funds (\$65,784) which were replaced with state general funds, the approval of three new general fund positions (\$94,547) and the additional utility costs for the expanded facility.

The Committee should note, even though the state general fund support has increased for the 1995-97 biennium, it is still much lower than the historical averages. For example, with the exception of the 1993-95 biennium for the past ten years, general fund support for the state Health Laboratory's budget has averaged between 58 percent and 67 percent. The reason for the decline has been the significant expansion in the use of fees to offset the Laboratory's operating costs. Although the expanded use of fees from a budget

perspective has had the positive impact of reducing the level of general fund support and has created an enhanced level of self-sufficiency, there are a number of negative side effects that need to be addressed.

First, the State Health Laboratory has come under increased criticism from private-sector clinical and environmental laboratories for overstepping their public health role and intruding into private-sector competition. Private-sector laboratories have also accused the Laboratory of unfair competition since a portion of their operating costs are state supported and major capital outlays are provided for with a general fund appropriation. To a degree these assertions are accurate. However, in order for the State Health Laboratory to stay within budget, they must compete with private-sector laboratories for some of the same business. If the State Health Laboratory cannot generate the amount of fees included in the budget, there is no means to defray the expensive costs for public health testing where partial or no reimbursement is received.

Second, the State Health Laboratory does not market its services and does not offer special package rates, volume discounts, provide computerized work stations to users for prompt notification of test results or take loss leaders to gain or keep business. Consequently, over the past several years the Laboratory has experienced a significant amount of volatility among the users of their services that impacts the amount of fee revenue projected and included in the budget compared with the amount actually collected. For example, in FY 94 to offset a fee revenue shortfall of approximately \$107,000, the Department of Human Resources transferred \$35,000 in earned SLIAG grant funds to remain within budget. The alternative would have been to request an IFC allocation. In FY 95, an even larger shortfall occurred as a result of losing major contracts with the Department of Prisons (\$70,000 annually) and a major brothel (\$50,000 annually) to a private-sector laboratory. To rectify the budget dilemma, the IFC approved a \$66,000 allocation (\$54,630 actually used) and the Division transferred \$189,819 in SLIAG grant funds into the Laboratory budget for cashflow. For FY 96, a fee revenue shortfall of approximately \$116,000 is again projected primarily due to the workload reductions in water chemistry testing (see performance measurements). Although the Laboratory initiated budget savings measures (i.e., leaving positions vacant) and clinical microbiology and water bacteriology testing revenues have stabilized, the budget shortfall is projected to be between \$25,000 and \$35,000. **It is anticipated the Health Division will request an IFC allocation at the June 1996 meeting to resolve the cashflow shortfall.**

A similar fee revenue shortfall for FY 97 is possible since water chemistry testing workload will most likely continue to lag. From discussions with the Health Division, it appears the primary reason for the Laboratory's water chemistry workload reduction is many former fee paying users are now using private-sector EPA certified laboratories to take advantage of the one-stop testing concept. Evidently, many water suppliers find it much easier to use one laboratory facility to test for all regulated Safe Drinking Water Act parameters at the same time. **Most of the state's private-sector laboratories are not fully EPA certified to test**

for all regulated parameters; however, will subcontract with another EPA certified laboratory that is. The primary laboratory will then coordinate the sampling and referral process for a package price. Although the State Health Laboratory is EPA certified for more Safe Drinking Water testing parameters than any other private laboratory in-state, they are not fully equipped or EPA certified to test for all regulated synthetic organics at this time. Therefore, some former users have taken this workload as well as workload the Laboratory is capable of testing to private laboratories that have the necessary capabilities or will offer one-stop service by coordinating referrals.

The State Health Laboratory is in the process of purchasing and outfitting the expanded facility with the necessary chemistry equipment to test for all regulated Safe Drinking Water parameters. However, it will take a significant amount of time to install the equipment, to train staff and become proficient with new testing procedures and to receive EPA certification. EPA certification will most likely be achieved in late FY 97. Once certified, the Laboratory will begin charging for the enhanced synthetic organic testing service capabilities. It is not known at this time how much additional revenue will be generated or if former users of the Laboratory's water chemistry services will return.

Third, the State Health Laboratory is not reimbursed fully for testing services currently provided to the Washoe County Health District. Over the past two years, the Laboratory is typically reimbursed for approximately 50 percent of total billing charged for clinical testing services. This has amounted to a loss of approximately \$35,000 per year. Washoe County does not reimburse the Laboratory in full because they cannot refuse providing services to someone who cannot afford the service. The regulations that pertain to the Laboratory's fee schedule allows fees to be waived in these circumstances. This is an example of a public health function that needs to be provided, is part of the Laboratory's mission and traditionally has been provided at no cost.

The State Health Laboratory has historically provided water chemistry and water bacteriology testing for the Division of Environmental Protection (DEP) per an inter-agency agreement. The reimbursement rate was increased this year from \$70,000 to \$90,000 per year (\$7,500 per month). According to the Laboratory, the rate of reimbursement does not cover the Laboratory's costs. Also, the value of the testing services provided DEP in FY 95 was \$145,000. **The Laboratory should attempt to renegotiate a reimbursement rate with DEP which is more equitable and covers the Laboratory's costs.**

- VII. Expenditures--Base budget expenditure line-items were reviewed to test for reasonableness, appropriateness and relation to the Laboratory's mission.

Personnel Services--The State Health Laboratory has 31 legislatively authorized positions which are currently all filled. The organization structure consists of four sections, clinical microbiology, environmental chemistry, technical support which includes water bacteriology and administrative support. Each section includes a

working supervisor and the entire Laboratory is under the technical oversight of a Senior Physician-Medical Director.

The 1995 Legislature approved three new positions for the 1995-97 biennium (Decision Unit M-200: 1.0 Chemist, 1.0 Lab Assistant and 1.0 Management Assistant). The Chemist and Lab Assistant positions were approved to support the increased chemistry workload experienced over the years and for the additional workload anticipated with the expanded testing capabilities for the Safe Drinking Water program. It was also envisioned the Chemist position would allow the working chemistry supervisor more time to devote to the Laboratory Certification program. The clerical position was approved to provide clerical support to the Medical Director, the Administrative Services Officer and the working section supervisors. In order to accrue budget saving, the Chemist and Laboratory Assistant positions were not filled until January 1996. Additionally, due to the significant Laboratory Certification backlog, the new Chemist position is receiving EPA sponsored training to become a Laboratory Certification Officer. Once trained, that position will be assigned bench work as well as Laboratory Certification responsibilities to downsize the backlog.

The salary and support costs for the three new positions will become part of the base budget for the 1997-99 biennium.

Out-of-State-Travel--The 1995 Legislature approved Decision Unit E-175 which authorized out-of-state-travel expenditures for the Medical Director to attend the Association of State and Territorial Public Health Laboratory Director's (ASTPHLD) annual planning conference. The planning conference is designed to provide the most current information on new and emerging infectious diseases (i.e., lead poisoning and hantavirus), technical information concerning the Safe Drinking Water program and new laboratory technologies. The Medical Director will attend the conference in June.

The out-of-state-travel expenditures will become part of the base budget for the 1997-99 biennium.

In-State-Travel--A majority of the in-state-travel is for the Medical Director, the Administrative Services Officer and the section working supervisors. Typically, in-state-travel is used to attend Board of Health meetings, meetings with officials from the Clark and Washoe County Health Districts, meetings with laboratory users and Division meetings in Carson City. The designated water and Dairy Laboratory Certification Officers travel statewide to certify private laboratories. The Dairy Certification Officer also provides training to dairy personnel in the field on how to test dairy products. Support staff travel is minimal and generally involves picking up or delivering specimens.

Operating Supplies--The operating supplies expenditure line item makes up approximately 70 percent of the Laboratory's total operating category budget. Approximately 98 percent of the operating supply expenditures are for technical laboratory supplies purchased for conducting day-to-day testing. Operating supply expenditures include the costs for reagents and standards, test kits for HIV, syphilis, gonorrhea, chlamydia, hepatitis, rubella and influenza, lab glassware, gases, specialized medias, safety supplies, etc. Approximately 75 percent of the technical operating supplies expenditures support the Laboratory's microbiology section, 17 percent supports the chemistry section and 8 percent supports the technical support and administrative sections.

The 1995 Legislature authorized \$330,633 in laboratory supply expenditures for FY 96. The Laboratory projects spending approximately \$293,000. The difference represents technical supplies the Laboratory will not purchase since a majority of the new chemistry equipment authorized in the one-time appropriation is still in the acquisition process and not operational. The Legislature approved \$37,696 for technical operating supplies related to the new equipment purchases (see Decision Unit M-201). **The operational costs for the new equipment will begin in FY 97 once installed and functional and will become part of the Laboratory's 1997-99 adjusted base budget.** The Committee should note, the cost for technical laboratory supplies has consistently exceeded the CPI index for the past five years (based on information provided by the Health Division).

Printing--The printing amounts authorized in FY 96 were based on expenditures in FY 94 (last budget cycles base year) and the plan to redesign the current lab test request form. It was decided not to redesign the lab test request form until the laboratory management information system is on-line. The Division will have to re-justify any additional printing expenditure requests for the next budget cycle. **Any additional amounts recommended over the FY 96 actual will not be included in the 1997-99 base budget.**

Other Contract Services--This expenditure line item represents costs for maintenance agreements primarily on laboratory equipment. Additional funding will most likely be requested for the 1997-99 biennium to cover new equipment purchased with the one-time appropriation once the warranty period expires. **Any additional expenditures requested for the next budget cycle will have to be justified and should not be included in the base budget.**

Maintenance Building and Grounds--The bulk of the expenditures for this line item is for the Laboratory's contract janitorial costs and for the exterior maintenance of the facilities' grounds provided by the Buildings and Grounds Division. The FY 96 budget had the interior and exterior maintenance costs split out by different general ledgers (see B & G Assessments); however, all costs are now consolidated. The

increase in the year-to-date and projected costs primarily reflect the additional janitorial costs for maintaining the expanded facility (\$750 per month). **The additional janitorial costs will become part of the Laboratory's base for the next budget cycle.**

Medical and Dental Expense--The increase in Medical and Dental expenditures over the amount budgeted is a result of a refrigeration failure which destroyed several doses of Hepatitis B vaccines used to inoculate lab employees. **This is a one-time expenditure and the costs for replacing the lost doses should be removed from the base for the next budget cycle.**

Other EDP Costs--All data processing related costs should be moved to the generic expenditure category currently used by most state agencies who have such expenditures. This allows for the easy identification of data processing expenditures when this information needs to be extracted. **The expenditures for FY 96 are one-time costs for computer software and related supplies and should be removed from the base for the next budget cycle.**

Maintenance Buildings and Grounds (category 7)--The 1995 Legislature approved \$10,000 appropriation each fiscal year for major maintenance or repairs of the Laboratory's physical plant, air handling system, reverse osmosis systems, etc. The Building and Grounds Division does not maintain the facility. The maintenance and repairs are generally not planned and occur as a result of a failure with the facility's infrastructure. In such situations, prompt repairs must be initiated in order to maintain the integrity of laboratory specimens and testing schedules. **The appropriation serves as a contingency and will become part of the base for the next budget cycle.**

One-time Appropriation--As indicated earlier in this report, the 1995 Legislature approved a one-time appropriation for the Laboratory in the amount of \$1,223,284. Attachment B provides a breakdown of the equipment which was to be purchased, the purpose and justification for the equipment and the estimated cost. The Laboratory indicates the charm test equipment (for milk testing), some of the computer hardware and office equipment and the refurbished autoclaves have been purchased. A majority of the chemistry equipment will be ordered by the middle of May. The Laboratory will forego the purchase of the DMSCC (Foss) equipment (\$46,887) since after further investigation the testing accuracy is not as claimed by the manufacturer.

The one-time appropriation includes \$361,000 for a fully automated laboratory information system for both the Chemistry and Microbiology departments. The needs assessment is scheduled to be completed by the first week in May. The Request for Proposal will be developed from the needs assessment and will be

completed and issued by June. Any portion of the one-time appropriation not spent by the close of FY 96 will be brought forward for expenditure in FY 97. Any remaining funds left unspent after the close of FY 97 will revert.

Utilities--The 1995 Legislature approved \$87,702 in utility expenditures for FY 96 which included \$39,078 for the projected utility costs for the Laboratory's expanded facility. The Laboratory projects FY 96 utility expenditures will be approximately \$58,000. The primary reasons for the differences in projected expenditures compared with the amount budgeted are attributed to delays in the construction of the expanded facility, delays in purchasing and installing equipment authorized in the one-time appropriation and the more efficient construction of the expanded facility. **For the upcoming budget cycle, the utility expenditure base will need to be adjusted to account for a full year of projected utility costs with the expanded facility and laboratory equipment not yet operational.**

VIII. Summary of Major Findings:

- A. The Safe Drinking Water Laboratory Certification program will gradually be transferred from the State Health Laboratory to the Bureau of Health Facilities.
- B. Additional staff and resources supported by industry fees will be requested from the IFC to meet A.B. 580 requirements. A significant certification backlog currently exists.
- C. The Laboratory's specimen workload has progressively decreased since FY 1994 and is most pronounced in the environmental water chemistry testing area.
- D. Fluctuations in user patterns and workload reductions primarily with environmental chemistry water testing has created a revenue shortfall problem for the past several fiscal years. The Health Division has been able to cover revenue shortfalls for the past two fiscal years; however, may request an IFC allocation at the June 1996 meeting to resolve the FY 96 cashflow problem.
- E. The Laboratory performs a significant amount of testing for the Washoe County Health District without reimbursement as a public health service.
- F. The Laboratory should attempt to renegotiate a more equitable reimbursement rate from the Division of Environmental Protection to cover costs.

IX. Other Issues--**At the January meeting, Health Division representatives, in response to Committee questions, indicated a policy discussion on the positive and negative attributes of privatization would be welcomed. Some of the issues the Committee may wish to have addressed if this discussion is pursued are as follows:**

- A. **The Division should discuss the role of the State Health Laboratory as it relates to the Division's responsibilities for promoting and protecting public health. The Laboratory's role should be addressed separately for clinical services, environmental services (chemistry and microbiology), dairy and dairy product testing and reference services provided to all private laboratories. Could the State Health Laboratory's role for providing these services be assumed by a private laboratory and the Division's responsibilities for promoting and protecting public health be retained without barriers or be compromised?**

For example, the free services the Laboratory provides indigent clients accessing the Washoe County Health District are critical public health services that a private laboratory would most likely not provide. Also, the State Health Laboratory provides an important public health referral and first response service at no cost in such areas as tuberculosis, plague, tularemia, hantavirus, E-coli, salmonella sub-typing, environmental microbiology as relates to food-borne outbreaks and influenza typing. The State Health Laboratory currently collaborates with the World Health Organization on influenza typing, the Centers for Disease Control on salmonella sub-typing and accepts all mycobacteria (TB) isolates referred by private laboratories for complete studies. Most private laboratories are not capable of providing this expensive service.

Additionally, the Food and Drug Administration (FDA) **requires** the state maintain a public health laboratory with an appropriate level of staffing as the primary testing center for milk and dairy products and for the dairy certification program.

- B. **Are there testing services the State Health Laboratory currently provides which would be best performed in the private sector? However, due to the need to generate fees for budgetary reasons, the Laboratory must continue offering and providing the service?**
- C. **The Laboratory's Environmental Chemistry section will be fully equipped and probably EPA certified to test for synthetic organics regulated by the Safe Drinking Water Act in late FY 97. These services will be charged for and may rectify the revenue problems the Laboratory is currently experiencing due to reduced environmental chemistry workload. How will these expanded services enhance the Division's public health role, could these services be provided by the private sector without interfering with the Division's public health role and how will they be viewed from the private-sector perspective?**

**FUNDAMENTAL
REVIEW OF BASE
BUDGET**

**INSURANCE REGULATION
101-3813**

**DIVISION OF INSURANCE
DEPARTMENT OF BUSINESS
AND INDUSTRY**

MAY 7, 1996

FUNDAMENTAL REVIEW OF BASE BUDGET

101-3813

INSURANCE REGULATION

In 1864, during its first Session, the Nevada Legislature approved a measure providing for the regulation of foreign (i.e., out-of-state) insurance companies (Chapter XVII, "An Act to Regulate Foreign Insurance Companies Doing Business in This State." *Statutes of Nevada 1864*). This law provided for the State Controller to perform many of the regulatory functions that are currently performed by the Division of Insurance. The State Controller retained authority to regulate insurance until 1951. The 1864 act required insurers to register with the State Controller and regulated agent activities as well. Subsequent acts set solvency requirements and extended the Controller's authority to regulate domestic as well as foreign companies (Chapter XXXVII, "An Act to License and Regulate Insurance Business in This State," *Statutes of Nevada 1881*).

In 1949, the State Controller was authorized to create a Department of Insurance and to appoint its director; however, the Controller remained the State Insurance Commissioner (Chapter 314, *Statutes of Nevada 1949*). The following Session, in 1951, the Legislature created a new Department of Insurance under the Governor's supervision and the new department director was designated as the Insurance Commissioner (Chapter 314, *Statutes of Nevada 1951*).

In 1963 the Legislature undertook a major reorganization of the executive branch. As a part of this change, the Department of Commerce was created and the Insurance Division became a part of that new agency (Chapter 339, *Statutes of Nevada 1963*). In 1991, the Legislature again created an independent, cabinet level Department of Insurance (Chapter 519, *Statutes of Nevada 1991*). However, the department's independent existence was brief, and in 1993 it was again subsumed in a new executive agency, the Department of Business and Industry (Chapter 466, *Statutes of Nevada 1993*).

NRS 679A.140 designates the purpose of Title 57, Insurance, is to protect policy holders and interested persons, ensuring fair treatment for policy holders, claimants, and insurers; to provide adequate standards of solvency of insurers and of integrity and competence in their business affairs; to ensure that the state has an adequate and healthy insurance market; and to prevent misleading, unfair, and monopolistic practices in insurance operations.

- I. Mission Statement--The mission of the Division of Insurance is to protect the rights of Nevada consumers in dealing with the insurance industry and to ensure financial solvency of insurers. In order to fulfill its mission, the Division will advance a sound regulatory environment that is responsive to the insurance needs in Nevada.

The Division's mission statement appears to be consistent with regulatory intent and appears to be realistic and achievable.

II. Goals

The Division has established the following goals to facilitate the mission of the agency:

1. To ensure the solvency, competency and fair dealing of insurers, agents, brokers and individual and group self-insured employers of workers' compensation, and other licensees of the Division;
2. To encourage available and affordable markets of insurance products;
3. To afford policyholders and other consumers with individualized assistance to secure the benefits to which they are entitled under contracts of insurance;
4. To implement programs to raise consumers' awareness of their legal rights and responsibilities under contracts of insurance and the public's understanding of complex insurance products.
5. To assert action against unlawful activities that threaten the rights of consumers and distort the public view of the insurance industry.

Division goals are consistent with their mission statement. Information provided for this review included the mission statement and goals but the Division had not completed revision of the objectives within their strategic plan, as recommended during their recent LCB audit. (Note that the LCB audit discussed goals, objectives, and outcome measures related to marked conduct exams and consumer complaint investigations only. However, several of the Division's measurement indicators were discussed before the assembly Ways and Means Committee during the 1995 session, resulting in a request from Chairman Marvel that updated indicators be provided before the budget closed.) The audit was completed in July 1994 and the Department of Administration's six-month report presented before the Legislative Audit Subcommittee on February 21, 1996 rejected objectives submitted by the Division. The Subcommittee instructed the Division to reappear on June 19, 1996. Additionally, the Division needs to be able to communicate how their goals and objectives relate to relevant statutes.

- III. Performance Measures--We were unable to evaluate updated performance measures, as they were included in the audit recommendation regarding revision of the Division's strategic plan and have not been completed yet. The Division indicated that it anticipates briefing updated performance measures to the Legislative Audit Subcommittee during the June 19, 1996 meeting.

Specific impact, however, is that the audit finding and subsequent recommendation have been in existence in excess of 18 months. While the Division indicates that their efforts toward completion continue, these performance measures should be

instrumental in developing future plans, allocating resources (i.e., budgeting), and making operational decisions. So, the longer the Division continues without adequate strategic planning documents, the more questionable their decisions will be in terms of future plans, resource allocation, and operational decision-making. The measurement indicators are a crucial part of the budgeting process and need to be in place before the Division develops their budget, not after it has been submitted.

Current Indicators:

- New Licenses Issued
- Premium Tax Collected
- Consumer Complaints Received / Resolved / Percent Resolved
- Amount Collected on Behalf of Consumers
- Fines and Penalties Collected
- Life and Health Filings Received
- Insurance Companies Licensed
- Property and Casualty Filings Received
- Medical Legal Cases Filed with Screening Panel

Agencies can report measurement indicators in a variety of ways, however, usually the indicator will measure input, output, outcome, process, or efficiency. Input and output measures merely report numbers in and out. For instance, the number of consumer complaints received is an input measure and the number of complaints resolved is an output measure. The percent of complaints resolved moves toward an outcome measure but a better indicator would show an increase or decrease in the percent resolved over the last period measured. Additionally, a process indicator would indicate the average time it takes for the Division to process complaints and an efficiency indicator would report the number of claims resolved by each investigator.

With the exception of the indicator for premium tax, most of the Division's indicators are either input or output measures. The amount of premium tax collected is not a measurement indicator, it merely tracks revenue that is deposited to the General Fund and since it is now collected by the Department of Taxation, it is no longer relevant to this budget. As indicated in the audit, the Division needs to move past workload activity and think in terms of results and outcome measures.

- IV. Agency regulations--The Insurance Division initiated revisions to 34 regulations following the 1995 Legislative Session. Eleven of the 34 were associated with changes required to achieve accreditation by the National Association of Insurance Commissioners for the state. (See Section IX of this report for an expanded discussion of accreditation.) All changes were initiated either as a comprehensive review following the transition between the previous Insurance Commissioner and the current Commissioner or as necessitated by revisions to the Nevada Revised Statutes during the last session, with the exception of one regulation

affected by changes in federal law. Of the 34 regulations requiring changes, 29 have been completed and five are pending; the Insurance Commissioner expects to issue hearings notices before the end of FY 96. While the Commissioner indicates that all regulations have been updated within established time limits, the Secretary of State's office does not have a statement from the Division regarding Insurance regulations. NRS 233B.050 requires each agency to file a statement with the Secretary of State indicating the date of the most recent review (three-year review) of agency rules and describing any revisions made as a result of the review. **Recommend that the Insurance Division provide the necessary statement to the Secretary of State.**

- V. Revenues--The Division of Insurance is supported by general funds (72%), a transfer from the Insurance Examiners Fund (14%), Medical Legal fees (7%), the Federal Medicare Information, Counseling and Assistance (ICA) grant (5%), and user/copy charges (2%).

During the 1995 Legislative Session, the primary source of funding for the Division of Insurance changed from a transfer from the Insurance Examiners Fund to general fund. This action was approved because the reserve in the Insurance Examiners Fund could not continue to support the transfer at a level consistent with previous years without increasing administrative fees for conduct of the examinations.

LCB Fiscal Division staff research for the 1995 Legislative Session revealed that prior to the 1993 biennium, the Insurance Regulation budget was primarily supported by General Fund appropriations. In some years, additional funds were transferred from the Insurance Examiners Fund to cover identified expenditures. The 1991 Legislature increased annual license fees paid by insurers by almost five times to generate enough revenue to offset the cost of the agency and added positions. Then in 1993, a significant shift occurred in the Division's funding due to budget constraints. The transfers from the Insurance Examiners Fund were increased to replace General Fund appropriations to the Insurance Regulation budget. Since the reserve in the Examiners Fund was expended by FY 95, continued funding of the Insurance Regulation budget with exam fees was no longer a viable option for FY 96/97 unless the administrative charge for examinations was increased. As a result, the 1995 Legislatively Approved budget replaced the transfers from the Examiners Fund with General Fund appropriations for the Insurance Regulation budget.

At the close of the 1995 session, the legislature issued a letter of intent to the Division of Insurance to provide quarterly status reports on the Examiner's Fund to the Interim Finance Committee. The latest report (see Attachment A) shows the status of the fund as of March 31, 1996 projecting the reserve for FY 96 to be \$389,092 and for FY 97 to be \$273,061. The FY 96 estimate provides for a transfer to the Insurance Regulation budget to be \$335,287 and the FY 97 estimate provides for a transfer of \$570,947, based on the 1995 Legislatively Approved budget.

Of note in the report is the fact that Division costs for the liquidation of an insolvent insurance company that were initially projected at \$121,284 for FY 96 and \$67,717 for FY 97 have not materialized. The Division has decreased the projected amount each quarter to reflect a conservative estimate of the amount that could still be required for the liquidation. **Given this impact, it could be anticipated that the Examiners Fund will remain stable during the next biennium with the current 50% charge for examinations that supports the fund.**

Medical Legal Fees are collected upon the filing of medical malpractice cases and are intended to represent the administrative costs associated with conduct of hearings for those cases. User fees and copy charges are similar in nature in that they are intended to cover specific costs for the Division to provide services. The user fees represent charges to Assessment Services, Incorporated (ASI), as specified in their current contract, for additional Information Services programming charges while the copy charges represent charges for providing copies to the public. The ASI contract provides for testing of applicants for licensure as insurance representatives and the latest contract amendment provides for ASI to pay the Division of Insurance for programming costs that the vendor is unable to provide. **For the upcoming Session, we recommend the Division provide actual expense information for each of these fees or charges so a determination can be made as to the appropriateness of fees charged.**

The Medicare Information, Counseling and Assistance (ICA) grant has been available to the Division for the past three state fiscal years and currently the Division anticipates continued federal funding of the program. The grant is provided for the purpose of providing information on Medicare entitlement and benefits as well as assistance with claims and appeals for citizens over the age of 65. (See Section VI, F for an expanded discussion of the Medicare ICA program.)

VI. Expenditures -- Base budget expenditure line-items were reviewed to test for reasonableness, relation to mission and appropriateness.

A. Personnel Services -- The Division of Insurance has a total of 49 authorized positions, with 43 of the positions assigned to the Insurance Regulation account. The Division has provided information that relates to caseload for its various functions. Using the information provided, it is possible to build staffing ratios for both professional and support staff. However, the Division needs to be prepared to support the resultant ratios in terms of national or industry standards regarding caseload to review contract examinations. **Recommend the Division provide definitions of caseload with their 1997-1999 budget request, in order to more fully analyze the appropriateness of caseload data.**

Several issues relating to Personnel requested for accreditation have been discussed at length for several previous sessions. (See Section IX of this report for an expanded discussion of accreditation.)

The Division's response to questions for the fundamental review regarding vacancy savings cites two instances where Actuary positions were held open to achieve vacancy savings. However, it should be noted that the Division also reclassified five existing positions to higher grades during the biennium, which would affect the Division's ability to appropriately meet vacancy savings.

The Division reports a total of \$2,031 paid in FY 95 as either overtime or compensatory time for Insurance Regulation, which represents one tenth of one percent of the total allotted to salaries in that budget account. The amount reported for FY 96 is \$617, approximately one third of the amount recorded for FY 95. However, we would expect that amount to increase in the remainder of FY 96, as the Division begins budget preparation. **Use of overtime and compensatory time does not appear excessive and does not appear to support a need for additional staffing at this time.**

- B. Out-of-State Travel--The budget for Insurance Regulation does not include provisions for out-of-state travel. Instead, a majority of travel for all Division budgets is provided in the National Association for Insurance Commissioners (NAIC) budget account 101-3828. Of the \$20,535 spent for total travel within the Division in FY 95, the NAIC budget paid \$16,029 or 78% of the total. Travel, as reported by the Division, was related to nation-wide insurance issues (including accreditation), insurance training (also including accreditation training), rate hearings, and consumer education.

The Division has been under a letter of intent following the past two sessions to "use a portion of the funds available in the National Association of Insurance Commissioners' budget and the Insurance Education and Research budget for staff training to meet accreditation standards set by the National Association of Insurance Commissioners." **While the Division paid 78% of travel for FY 95 from the NAIC budget, it needs to identify courses that were funded by the NAIC budget that were specifically related to accreditation.**

The listing provided by the Division indicates that \$15,049 was spent for travel to national conventions and only \$1,906 was spent on specific training classes (none of which were specifically identified as supporting accreditation). **The Division of Insurance needs to demonstrate how attendance of NAIC national conferences conforms to the legislative intent to fund training that will enable the Division to meet accreditation standards.**

Additionally, in the 1997-1999 budget request, the Division needs to identify Continuing Legal Education (CLE) that has been funded in FY 96 actuals for staff attorneys. **The adjusted base budget needs to reflect an adjustment to the amount of CLE that is funded for each attorney, to make the Division's budget request consistent with CLE provided by other agencies within the state.**

- C. Operating--The Division of Insurance has increased items being allocated among budgets within the Division since the close of the 1995 Legislative Session, to spread increased legal costs related to revision of insurance regulations to the Division's budgets. In order to display that internal cost allocation process for the budget process, the Division plans to adjust base for Insurance Regulation to reflect the total cost and will add a revenue source to reflect transfers from budgets within the Division. It should be noted that each budget included in the cost allocation process will also need a corresponding adjustment.

Recommend that the Division provide an expanded narrative for their cost allocation process in the 1997-1999 budget to describe items allocated, methodology for allocation, and associated calculations. Additionally, the Division needs to ensure that revenues are not restricted from payment of items being allocated and that the items allocated are appropriate to the budgets charged.

- D. Legal Expenses--This item includes expenses related to insurance hearings and to the review of insurance regulations. The Division provided information about these expenses, indicating that the projected total for FY 96 is \$31,973, estimating regulation costs to be \$22,915 of that total. However, the detailed listing provided by the Division does not support that conclusion; rather, regulation costs appear to be \$7,148. Additionally, the information provided by the Division relating to the FY 98/99 base budget only identifies \$5,000 as being related to regulation review. **Recommend that the Division clearly identify all costs pertaining to review of regulations for FY 96 actual costs and for the FY 98/99 agency request.**

The Division also indicates that it expects to incur similar costs for regulation review for even years of the biennium. We agree that some regulation review will follow each session that enacts changes to statutes that affect the Division. However, it is our contention that the review conducted by the Division following the 1995 session was quite thorough and such extensive revisions might not be required in the future. **Recommend that the Division project a minimal base amount that can be justified and that the remainder be deleted from base. Then, in consideration of specific initiatives, such as "three-way" workers compensation insurance, the Division could propose maintenance**

or enhancement modules that would support the Division's needs. Additionally recommend that for the FY 1997-1999 budget, the Division assign specific general ledger account numbers that will assist with future tracking of the expenses.

- E. Medicare ICA Program--The Medicare Information, Counseling and Assistance (ICA) Program Grant was created under the authority of section 4360 of the Ombudsman Budget Reform Act (OBRA) of 1990, Public Law 101-508. The grant began in 1993 and is renewed annually. Nevada's grant is usually approximately \$100,000 but the projected total for 1996 is approximately \$90,000. Current expectation is that the grant will continue to be funded in the federal budget.

The program is directed to all Nevada citizens over the age of 65. A network of trained volunteer advisors deliver materials and information on Medicare entitlement, benefits, limitations, coordinated care plans, supplemental insurance information, and assist with claims filing and appeals. The program is administered by an independent contractor because of the year-to-year nature of the federal grant and the current contract provides for:

| | | |
|--------------------------|---------------|--------------|
| Program Administration | \$4,550/month | \$38,675 |
| Travel - ICA Conferences | 2,765 | 2,765 |
| Administrative Travel | 1,000/month | <u>8,500</u> |
| Total | | \$49,940 |

It should be noted that this contract represents eight and one half months during FY 96 and the annualized cost for this contract would be \$69,365.

In addition to contract costs, the program pays for travel by insurance personnel to monitor the program and for allocated operating costs associated with administration of the program.

Recommend that the Division work with the Purchasing Division and the Budget Division to clearly define deliverables for the Medicare ICA contract, to ensure the Division's satisfaction with vendor performance. Further recommend development of measurement indicators or caseload information for the program, to be included in the 1997-1999 budget. We also suggest that the vendor identify her reports by county, for ease in responding to legislator requests for information.

Additionally, recommend that the Division of Insurance carefully monitor receipt of federal cash to ensure that contract services are not obligated prior to approval or receipt of federal funding. The 3.0 Report for FY 96

dated 4/5/96 indicates that \$20,714 has been received for the grant and that \$36,504 has been spent for the program. The Division either needs to ensure that the draws of federal cash are accomplished in a timely manner to allow continuity to the program or that services are delayed until receipt of cash. Additionally the Division needs to ensure that contract language allows sufficient flexibility to restrict or interrupt services under the contract if federal funding is either interrupted, as it has been during this year's federal budget process, or abruptly terminated.

During the 1995 session the Senior Ride program within Taxicab Authority was transferred to Aging Services in the Department of Human Resources because Aging Services already served the target population. **Since the Medicare ICA program also serves the same population, recommend that Insurance Division either propose to transfer the program to Aging Services or provide justification to retain the program within the Insurance Division.**

- F. Information Services--Costs related to information services for the Division of Insurance appear in a variety of budgets, as indicated below:

| | | | FY 95 <u>Actual</u> | FY 96 <u>YTD</u> |
|------|-------------------------------------|-------------|------------------------|---------------------|
| 3813 | Insurance Regulation | Programming | 0 | \$39,331 |
| | | Hardware | \$4,158 | 0 |
| 3833 | Cost Stabilization | Hardware | \$9,406 | \$32,727 |
| | | Software | \$5,009 | |
| 3824 | Insurance Education and Research | Training | \$ Not Identified | |
| | Total | | <u>\$18,573</u> | <u>\$72,058</u> |

Additionally, the Division reports receiving approximately \$50,000 in computer hardware, software, and training. **In order to more accurately define continued support needs, recommend that the Division provide a comprehensive report with the 1997-1999 budget that identifies all current assets regardless of funding source, by budget account, indicating:**

Type of hardware

Type of software

Funding source, to include donations

Position title and budget account at the location where the computer is used

Budget that recorded the purchase or receipt of the donation

Division networking links

The Division also needs to justify on-going programming needs identifying:

- **Programming paid by vendor (ASI contract)**
- **Remaining Division programming. Please include narrative discussion about the programming, to include systems that will be maintained and budgets within the Division that benefit from the programming.**

VII. Alternatives

A. Increased effectiveness/decreased costs.

The Division reports that the Medical-Dental Legal Screening Coordinator is being relocated to Las Vegas as a cost savings in daily operating costs because over 75% of the medical-dental legal cases originate in the Las Vegas area. **In its 1997-1999 base budget, the Division needs to justify continued staffing of this position with an attorney.**

The Division has implemented a lock-box program for collection of fees, which is anticipated to save staff time in receipting. Initial results indicated that deposits are being made two days earlier than previously. **The Division's preliminary discussion of adjusted base anticipates placement of additional costs for the lock-box program in adjusted base. Since this is a new program, it appears that this should be placed in a maintenance module.**

B. Outdated Regulations. The Division of Insurance has completed a comprehensive review of regulations following the 1995 session and has amended a majority of the regulations requiring revision. (See Section IV for an expanded discussion of agency regulations.)

C. Duplicated Services.

The Division of Insurance reports that collection of the Premium Tax needs to be closely coordinated with the Department of Taxation, with particular attention to enforcement activities and collections from brokers of Surplus Lines. It appears that the two agencies have the necessary statutory authority, though, and are able to complement each other in performance of duties.

The Division reports that it shares responsibility for oversight of employers for self-insured workers compensation with the Division of Industrial Relations. The Division of Insurance provides certification services and is responsible for review of the companies' financial solvency, while the Division of Industrial Relations is responsible for statutory requirements of the claims and for all compliance matters. It appears that

the two agencies have the necessary statutory authority and are able to complement each other in performance of duties.

- D. Cost Savings. The Division reports that it is developing E-mail and video conference capabilities between offices in the north and south and has entered into an agreement with the Director's office in the Department of Business and Industry to share that linkage for increased efficiency in the department. **The Division needs to identify sources of hardware and software used for this linkage, since this initiative was not presented to the legislature during the 1995 session.**

- VIII. FY 98/99 Base Budget--The Division of Insurance has provided a projection of their anticipated adjusted base budget for FY 96 actual (see Attachment B). We understand that FY 96 actuals will be refined by the Division prior to submission of the 1997-1999 budget and that the Budget Division will reconcile actuals after the formal close-out of the fiscal year as a part of the budget process.

This projection provides a good basis from which the Division may begin budget preparation. The Division should justify all adjustments to the base for both revenue and expense items and for positive as well as negative changes. Justifications will need to include narratives that explain the changes, both what is changing and why the change is necessary, with corresponding calculations.

A majority of the adjustments relate to the Division's proposed internal cost allocation. (See Section VI, C of this report for further discussion of the cost allocation.) **The Division should provide an audit trail to the budget currently being charged for the expense to ensure that adjustments to the base are adequately documented.**

- IX. Accreditation--The Division of Insurance reports that NAIC accreditation will provide the following benefits to Nevada:

Ability to offer insurers the opportunity to domesticate or redomesticate within an accredited state,

Assure the other 48 accredited states that Nevada standards for insolvency are the same as theirs,

Allow Nevada examiners the opportunity to act as the In-Charge Examiner on examinations,

Enable the accredited states to readily accept Nevada examination reports, thus avoiding possible additional examination costs for domestic insurers, and

Avoid financial loss to the examination fund from loss of examiners as a result of increased competition from other accredited states.

The Insurance Commissioner further states that the "Division of Insurance is subject to financial harm by not achieving accreditation" The Division reports attempts to achieve accreditation during both the 1993 and 1995 sessions but that it has not yet met NAIC standards.

We understand the issues affecting accreditation to be:

- A. Personnel. The Division has also had difficulty expressing specific personnel requirements, both number of personnel and type of personnel or classification, that support accreditation. The Deputy Insurance Commissioner indicated that this is due, in part, to less than specific language in preliminary NAIC reviews.

The Division's response to questions for the fundamental review, dated 4/10/96, indicated that the agency had received one additional position in 1993 for accreditation. However, LCB Fiscal Division staff research for the 1995 session reported that the Division had requested and received six positions during the 1993 session for FY 95 specifically to achieve NAIC accreditation. It was our understanding at that time that the Division would have to significantly increase the actuarial and financial capabilities of its staff to oversee and participate in the examination process.

The Insurance Division's response for the fundamental review refers to three positions transferred from Insurance Regulation, claiming that their net gain was only three for the biennium. It should be noted, however, that the three positions were transferred to the Department of Taxation along with the workload associated with the collection of Premium Tax, so the transfer should not have negatively impacted the Division's ability to become accredited.

Because of the discrepancies surrounding the issue of personnel added for accreditation, recommend that the Division conduct an audit of positions with the Budget Division and LCB Fiscal staff to ascertain which positions were granted specifically for accreditation. Also recommend that the Insurance Commissioner submit written certification that positions originally granted for accreditation are currently devoted to accreditation workload. Upon completion of the audit, results should be forwarded to LCB Fiscal Division and then included with the agency's requested 1997-1999 budget.

In addition to reconciling the number of positions that have been added for accreditation, the Division also needs to review personnel classifications. Preliminary information from NAIC reviews seems to indicate concern on the part of the accreditation team that incumbents in positions within the Division do not

possess necessary skills to accomplish financial reviews. Specifically, Program Assistants and Management Analysts do not possess the education or experience to perform detailed financial reviews. In the past, the Division's priority has been to request more clerical staff and less technical staff.

- B. Regulatory Statutes. The Division reports that a majority of statutory changes needed to obtain accreditation were passed in Senate Bill 505 during the 1995 session and that the Division is working to complete corresponding changes to insurance regulations. The Commissioner indicates that a "few statutory laws" are still needed. Additionally, the Division needs to have risk based capital in place by 1997 in order to comply with updated NAIC requirements.
- C. Items not addressed. The Division has not presented a comprehensive package that contains all requirements for accreditation. For instance, computer and training needs for accreditation have not been clearly identified and caseload data has never been separated for activities that affect accreditation and those that do not.

Recommend that the Insurance Division provide a comprehensive report on accreditation with its 1997-1999 budget request. The report should list all resources originally required for accreditation, to include updated requirements from the most current review. Then the Division should describe all actions and purchases already accomplished toward accreditation and finally, all actions that remain to be done to accomplish accreditation. The report should also address benefit to the state (i.e., cost-benefit analysis: if the state achieves accreditation, it will cost \$XX and will provide \$XX in projected revenue).

- X. LCB Audit--As discussed in Section II of this report, the LCB audit was completed in July 1994 and presented before the Legislative Audit Subcommittee on February 21, 1996. Not all recommendations had been implemented at that time and the Division was instructed to appear before the subcommittee for its next meeting on June 19, 1996. At this point, implementation of the following recommendations remains incomplete:
1. Further refine the goals, objectives, and outcome measures related to market conduct exams and consumer complaint investigations. **The Division needs to update measurement indicators.**
 2. Select insurers to be examined based upon a systematic, documented, risk-based approach. **The Division needs to provide copies of the new checklist as well as internal policies that describe how examiners will use the checklists.**
 3. Specify in the examiners' contracts that exams must be done in accordance with NAIC standards. **The Division completed revisions to all examiner contracts in February, 1996.**

4. Review the work of contract examiners to ensure compliance with NAIC standards. **The Division needs to provide a copy of the proposal for an in-house examiner to perform reviews, to include the checklist the examiner will use and a description of proposed duties. Additionally, the Division needs to identify funding and expenses for the proposal. If the proposal is intended for implementation in FY 97, it should be presented before the Interim Finance Committee. If the proposal is intended for implementation in FY 98/99, it should be included in the agency's 1997-99 budget request.**
5. Verify insurers take corrective action on problems found during market conduct exams. **The Division needs to present copies of the procedures for follow-up and a description of proposed follow-up duties for the examiner.**

**FUNDAMENTAL
REVIEW OF BASE BUDGET**

**NEVADA EQUAL RIGHTS
COMMISSION
101-2580**

**DEPARTMENT OF
EMPLOYMENT, TRAINING,
AND REHABILITATION**

JUNE 24, 1996

FUNDAMENTAL REVIEW OF BASE BUDGET

101-2580

NEVADA EQUAL RIGHTS COMMISSION

In 1961 the Nevada State Legislature created the Nevada Commission on Equal Rights of Citizens and in 1975 changed the Commission's name to the Nevada Equal Rights Commission. The chairman, members, and executive director are appointed by and serve at the pleasure of the Governor. From 1961 until 1993 the Commission remained as a separate agency and then during the 1993 reorganization, the Commission was placed in the newly created Department of Employment, Training and Rehabilitation. Commission mandates under the Nevada Revised Statutes chapter 233, subsection 140 are to:

1. Foster mutual understanding and respect among all racial, religious, disabled and ethnic groups and between the sexes in the state.
 2. Aid in securing equal health and welfare services and facilities for all the residents of the state without regard to race, religion, sex, age, disability or nationality.
 3. Study problems arising between groups within the state that may result in tensions, discrimination or prejudice because of race, color, creed, sex, age, disability, national origin or ancestry, and formulate and carry out programs of education and disseminate information with the object of discouraging and eliminating any such tensions, prejudices or discrimination.
 4. Secure the cooperation of various racial, religious, disabled, nationality and ethnic groups, veterans' organizations, labor organizations, business and industry organizations and fraternal, benevolent and service groups, in educational campaigns devoted to the need for eliminating group prejudice, racial or area tensions, intolerance or discrimination.
 5. Cooperate with and seek the cooperation of federal and state agencies and departments in carrying out projects within their respective authorities to eliminate intergroup tensions and to promote intergroup harmony.
- I. **Mission Statement**--To foster the rights of all persons reasonably to seek, obtain and maintain employment, and reasonably to access services in places of public accommodation without discrimination, distinction, exclusion, or restriction because of race, religious creed, color, age, sex, disability, national origin or ancestry.

The Commission's mission statement appears to be consistent with regulatory intent and appears to be realistic and achievable.

II. Goals

1. We will provide services to our customers. We will be accessible and responsive to customers' needs, and we will be designed so that people can be served effectively by our programs.
2. We will treat all Commission employees fairly, with dignity and respect.
3. We will provide a work environment that encourages innovation, effective communication, participatory decision making, professional development and improvement of the work process.
4. We will develop a focused and responsive service delivery system that treats every individual fairly and with dignity.
5. We will strive to resolve discrimination complaints in employment, and public accommodations within our jurisdiction.
6. We will seek legislative authority, means, and resources to accomplish our mission.

Recommend that the Commission re-examine its goals in terms of how they relate to responsibilities under NRS. Some goals appear to be very similar and could be combined, for instance goals two and three both discuss work environment. Some NRS directives are not addressed; requirements for the Commission to foster mutual understanding, to carry out education programs, and to secure cooperation to eliminate racial tensions are not addressed. Additionally, goal six is too general and should be eliminated. Recommend the Commission provide updated goals with the 1997-1999 budget.

- III. Performance Measures--We were unable to evaluate updated performance measures for the Commission since they were participating in the course provided by the University of Nevada to train agencies in development of performance measures. The Commission does have measures in place but is updating them as part of the interactive course provided through the University.

The Nevada Equal Rights Commission has traditionally had difficulty providing consistent statistical reporting for the mission it performs within the state. That difficulty continued during FY 96 and resulted in confusion over one report submitted to the Interim Finance Committee pursuant to a 1995 Session Letter of Intent.

It appears that some of the difficulty may be related to the computer program that the Commission uses to record case information. Both the Executive Director for the Commission and the Director of the Department of Employment, Training, and

Rehabilitation indicate that the federal programming problem affects states across the nation and that many of the states have urged federal program managers to address the need.

However, the Commission can take steps to alleviate at least part of the problems now. The Commission needs to select valid performance measures that will portray the Commission's effectiveness in the performance of state and federal program mandates. Next, the Commission needs to define in detail what each performance measure is, how it works, how it will be calculated, and how the data will be collected so that the measures can be consistently reported and understood.

Recommend the Commission provide a comprehensive report on its performance measures with the 1997-1999 budget to detail the items outlined above. Additionally recommend the Commission revisit any part of the budget that has been completed prior to finalization of the performance measures, to ensure that the final budget and the performance measures remain in agreement.

- IV. **Agency regulations**--The Nevada Equal Rights Commission has responsibility for 25 state regulations. The Commission indicates that all were reviewed in 1994 and a majority were amended at that time. While it appears that the Commission has reviewed and updated its regulations within established time limits, the Secretary of State's office does not have a statement from the Commission. NRS 233B.050 requires each agency to file a statement with the Secretary of State indicating the date of the most recent review of agency rules and describing any revisions made as a result of the review; reviews are required every three years. **Recommend that the Commission provide the necessary statement to the Secretary of State.**
- V. **Revenues**--The Commission is currently supported by general funds (61%), the Federal EEOC Contract (39%), and very minimal Witness/Copy Charge Fees. During the 1995 Legislative Session the Nevada Equal Rights Commission budget (state funded) and the Equal Employment Opportunity budget (federally funded) were merged to alleviate fiscal problems caused by cash flow in the federally funded budget.

The 1996 budget closed with the following modifications to The Executive Budget:

- The state and federal budgets were merged, in lieu of the \$240,981 general fund loan.
- The Commission received a supplemental appropriation of \$59,500 under SB 387 for personnel and operating expenses required through the end of fiscal year 1995, with the proviso that the appropriation would be reimbursed to the state general fund on or before June 30, 1996.
- Payment of the Commission's statewide cost allocation of \$14,973 for FY 95 was delayed until the close of SFY 96.

The Legislatively Approved Budget for FY 96 was based on anticipated federal funding for 965 cases at \$550 each, \$50 for intake and \$500 for resolution. However, subsequent to legislative approval, the federal contract was actually approved for 916 cases, based on the number of cases closed in previous years. This resulted in an immediate decrease in anticipated federal funding of \$26,950 in relation to authority that was approved in the budget.

The shortfall compounded when federal agencies were required to operate under a series of continuing resolutions. The immediate impact of the first continuing resolution was to restrict the advance available to the Commission to \$210,672 until the federal budget could be approved. The Commission billed \$207,500 for the allowed advance (415 cases) on February 7, 1996, and was required to wait until April 8, 1996, to bill for any completed cases in excess of the 415 paid in the advance. In April, the Commission billed for \$90,450 for cases completed at that time but only \$3,172 was available under restrictions imposed by the continuing resolution. While the continuing budget has now been lifted with the passage of the federal budget, the federal contract does not allow for additional billing until July 8, 1996. Because of the issues surrounding federal funding as well as cash flow, the Commission approached the Board of Examiners and the Interim Finance Committee on May 8, 1996, to request \$102,596 as a contingency loan for operations for the remaining six weeks of SFY 96.

The request for a contingency fund loan provides immediate relief to the Commission but seems to push part of the Commission's liability into the next fiscal year. Repayment of the loan increases the need for revenue in the new fiscal year, which creates the potential for another loan next year and never really resolves the funding issue. When combined with a situation where the federal contract is for 48 cases less than the budget projection, it appears that the Commission will have continuing revenue shortfalls. The Committee may wish to ask the Executive Director how the Commission plans to provide a permanent resolution to this issue.

The Executive Budget submitted for the 1995 Legislative Session requested \$240,981 as a general fund loan to the Commission to "cover the federal account shortfall until the government can be billed on July 8, 1995, for the other half of the contracted cases." In testimony during the 1995 Session however, the department director indicated that the loan would not be needed if the federal and state budgets were merged. The Commission requested to merge the state and federal accounts for several bienniums, a request that was granted during the 1995 Session, with the understanding that the consolidation would ease cash flow problems. While the Commission may have been able to improve their cash management during this biennium under normal conditions, problems with the federal budget process resulted in the Commission once again experiencing a cash flow crisis.

It is understood that the Nevada Equal Rights Commission needs to balance on a very fine fiscal line of spending just the right amount of resources on salary and operating costs to

provide enough manpower to close enough cases to fund operations. However, the Commission also needs to operate at peak efficiency to ensure that the resources spent on manpower produce enough case closures to maintain appropriate funding. (See Section IX, "Caseload/Backlog" for a related discussion on Work Performance Standards.)

Recommend that the Commission configure the 1997-1999 budget request to include an analysis of receipt of revenues over the biennium, with specific emphasis on receipt of federal funding and cash flow related to it. Receipt of revenue then needs to be compared with expenditures to demonstrate that the Commission can maintain a proper balance throughout the biennium. The Commission needs to mark specific instances of anticipated funding shortfall and should provide details of their plan to resolve it. Additionally, the Commission needs to develop an overall contingency plan in the event federal funding is abruptly interrupted or terminated, with specific trigger points and anticipated actions the Commission would need to take at each point.

VI. Expenditures--Base budget expenditure line-items were reviewed to test for reasonableness, relation to mission and appropriateness.

Personnel Services--The agency has 21.5 authorized positions; 13.5 of the positions are general funded and 8 are paid from the Federal EEOC Contract. There are 2 managers, 2 supervisors, and 5.5 clerical positions for 12 program positions. While the combined ratio of managers/supervisors to compliance investigator is high at 1:3, two of four carry a caseload and one does in-takes. Additionally the clerical support is also high at 1:2.18, the clerical staff provide clerical support for case inquiries, data in-put, and reporting that frees the technical program personnel for higher level case management duties.

VII. 1995 Enhancements--During the 1995 Session, the Legislature approved eleven enhancements (two maintenance modules and nine enhancement modules) for the Nevada Equal Rights Commission. Of those, eight were related to enhancements made in the department director's office or to other department reorganizations and thus represent the portion that was cost allocated to the Commission. One module was an adjustment to caseload calculations for in-state travel and operating costs and that adjustment is expected to remain as part of on-going base expenses. The two remaining enhancements represent specific modifications to the Equal Rights program.

The first module, M200 "Demographics/Caseload" included the Commission's request for three additional Compliance Investigator positions to address anticipated growth in caseload and its impact on the backlog of cases pending completion. Three positions were approved during the 1995 Session but only two were filled, due to the federal cash flow crisis.

During the 1995 Session, the Commission projected that 1,470 cases would be open at the beginning of FY 96 and that with three positions, the number of open cases could be decreased to 388 by the end of FY 97. Because problems with receipt of federal funding

impacted the Commission's ability to fill all of the positions it is useful to also look at the Commission's projection for authorization of two positions. That projection estimated that the number of open cases could be reduced to 663 by the end of FY 97. The Commission's most recent projection is for 728 cases expected to remain open at the end of FY 97, so while the Commission is making progress in closing cases, it is a little short of what was projected. It should be noted that the Commission did complete the maximum number of 916 cases allowed for payment under the FY 96 federal EEOC contract. Subsequently the Commission expects to apply to increase the maximum for the FY 97 contract.

The remaining module, E950 "Transfer in Federal Equal Employment Opportunity," merged the federally funded budget into the state funded budget. The impact of merging the accounts on receipt of federal monies was discussed previously in section V, "Revenues"

VIII. FY 98/99 Base Budget--The Commission has prepared a tentative base budget for 1997-1998 with projected adjustments (see Attachment A). A majority of the information presented displays appropriate calculations supported with concise narrative. Four items are currently reflected as adjustments to base that should be moved to either maintenance or enhancement portions of the budget. The items that need to have additional justification or need to be moved, based on the current budget instructions are:

| | | |
|---------------------------------|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Out-of-State Travel | \$1,200 | Requires explanation of why training expense did not occur in FY 96 to determine if it is appropriate to base. |
| Operating, Non-state Rent | 3,036 | Anticipated rent increase without a new lease should be maintenance. |
| Operating, B&G Special Services | 15 | Tied to rent increase, should also be maintenance. |
| Training | 2,574 | Represents an adjustment based on federal cash flow crisis related to federal budget negotiations. Recommend discussion with Budget Division staff for proper placement. |

While the base budget as presented will need to be adjusted for actual figures, the Commission has completed a majority of the work on its base budget for the upcoming session. Additionally, while this analysis has revealed only four discrepancies, review of the actual base submitted and discussions with the Budget Division may reveal others. **Mr. Ramirez and his staff should be commended for the level of detail provided with the projection for base.**

IX. Caseload/Backlog--Caseload and backlog have remained areas of concern throughout the interim. In discussing the issue of staffing, it became apparent that definition of caseload and appropriate means of calculating it continue to be problems for the Commission. Difficulties

appear to center around definition of terms used for caseload (i.e., whether a case is open or pending, how to age cases, how averages are defined and what they measure.) Additionally discussions of "backlog" have intermingled with discussions of caseload to further compound the confusion (i.e., whether a case is open, pending, or backlog).

Recommend that the Commission, jointly with the Budget Division, LCB Fiscal staff, and department fiscal staff, develop a model to relate caseload to staff and to project future growth patterns for the program for inclusion in the 1997-1999 budget. Additionally recommend that, as part of the Expanded Narrative, the Commission provide a status report on caseload/backlog with the 1997-1999 budget that defines terms the Commission expects to use and provides past trends as well as future projections for all performance indicators. It should be understood that while the federal contract and computer system require specific report elements, data being reported to the Nevada Legislature may or may not be formatted the same. The Commission should provide an appropriate interpretation of its statistics, based on what information the State Legislature has requested.

The Executive Director also discussed caseload management and indicated an interest in reviewing the level of difficulty and the experience level of the investigator in terms of case assignment, in an effort to further define caseload. In FY 96, as the Commission worked to resolve the oldest cases in their inventory, supervisors worked on the more difficult cases, providing an elevated level of expertise where it was most needed. **Recommend the Commission include case management as a part of the report on caseload/backlog.**

Individual Work Performance Standards is a related issue in that performance of each commission employee affects the Commission's ability to meet caseload closure projections and earn federal funding. During the 1995 Session, the department director indicated that a closure rate of 15 cases per month for each compliance investigator was feasible. In response to questions about employee performance, the director further noted that not all investigators were meeting the established standard. The Executive Director for the Commission submitted copies of current work performance standards for compliance investigators that became effective in November, 1995. The standards for case evaluation and closure to be completed by journeyman (fully trained), compliance investigators were:

| | |
|-------|-------------------|
| 18 | Outstanding |
| 16-17 | Above Standard |
| 14-15 | Standard |
| 12-13 | Needs Improvement |
| 0-11 | Unacceptable |

Recommend that the Commission provide a separate report with the 1997-1999 budget that indicates how the standards are being enforced, with specific relation to reduction of the backlog (or reduction of open cases).

- X. **Commission Meetings**--During the 1995 Session the department director testified that the Nevada Equal Rights Commission had met approximately three times since April 1994. The Executive Director reports that the Commission met on the following dates in FY 95 and 96:

August 3, 1995
January 17, 1996
April 17, 1996
May 8, 1996

Other than hearings for routine Equal Rights items, major items the Commission addressed included case closure and funding concerns, formalization of Commission procedures, case inventory and backlog, and Commissioner training. Given this information, the Commission appears to be meeting regularly and performing appropriately.

XI. **Alternatives**

Claimant Contact The Commission indicates that effective July 1, 1996, all individuals who have a pending case with the Commission will be contacted by letter to ascertain whether they wish to continue to pursue their charge. Missouri uses this contact and as a general rule sees a 15% voluntary withdrawal.

Privatization

- Establishment of a private vendor to provide for Equal Rights enforcement in Nevada would require statutory changes in NRS and would decrease the state's ability to affect case closures or otherwise influence enforcement in Nevada.
- Use of private attorneys to complete investigations has the potential to speed case closure; however, it increases costs.

Federalization During the 1995 Session, legislators questioned whether claimants could file directly with the federal EEOC in lieu of filing with the state and the department director indicated claimants could. In further discussions with federal counterparts, it is the director's understanding that returning the contract to federal control would greatly increase processing time for Nevada claimants since the Federal EEOC is much further behind in case closures than the states are. One additional consideration would be a probable decrease in the state's ability to influence enforcement for Nevada citizens.

Arbitration/Mediation. The federal EEOC recommends arbitration and mediation as a means of reducing the time and expense required to achieve case closure. The department director has contacted the Judicial College to provide training for Compliance Investigators.

**FUNDAMENTAL
REVIEW OF BASE BUDGET**

**BENEFIT SERVICES FUND
625-1338**

**DEPARTMENT OF
ADMINISTRATION**

JUNE 24, 1996

FUNDAMENTAL REVIEW OF BASE BUDGET

625-1338

BENEFIT SERVICES FUND

OVERVIEW

Under authority of NRS 287.041 to 287.049, the mission of the Benefits Services Fund is to provide budgetary support for the Committee on Benefits and to provide a cost effective, comprehensive health benefits plan for active and retired public employees and their dependents participating in the state health insurance program. The Committee on Benefits is responsible for the administration and management of the plan and consists of two members appointed by the State of Nevada Employees Association (SNEA), two gubernatorial appointees (one of whom must be a retired state employee), and the Director of the Department of Administration. In addition to the health benefits, the Committee on Benefits offers optional coverage for property insurance, long term care insurance, cancer or catastrophic illness insurance. These optional coverages are paid for by the employee.

The Risk Management Division is responsible for the provision of planning, administration and general staff support to the Committee on Benefits in the day-to-day operation of the benefits program. In addition to the support of the Committee on Benefits, staff from the Benefit Services Fund provide administrative support to the state workers' compensation, safety and loss control program and to the Insurance and Loss Prevention program (property casualty program). This report will be primarily directed at the activities related to the employee health and benefits program.

The Benefits Services Fund is primarily supported through state contributions for health insurance and charges to enrollees for coverage. In addition to state employees (which includes the University System), the health insurance program is available to retirees and to local governments. In FY 95 and FY 96 respectively, approximately 77% and 74% of the enrollees were state employees; retirees represented 18% and 20% respectively for the same period.

In 1992, in response to a projected shortage in the reserve for incurred but not reported claims, the committee significantly increased the cost for dependent coverage, eliminated some benefits, increased the participants' costs for using out-of-network providers, amended the payment methodology to providers, decreased co-insurance levels and implemented the mail in prescription program. For calendar year 1994, Committee established double deductibles, eliminated the waiver of the outpatient deductible and established three levels of plans to decrease the monthly costs for dependent coverage. These strategies intended to restore the reserve to an actuarially sound basis within five years, were very successful. By May 1994, the actuarially sound reserve level had been reached and the Committee began restoring benefits. All benefits have now been restored.

During Legislative review of the Executive Budget for FY 96 and FY 97, it was determined that assumptions regarding health care costs could reasonably be changed to reflect changes in health care cost trends and the increasing reserve level. The final budget document was presented on May 8, 1995 and approved by the Legislature on May 29, 1995. In closing the budget for the Benefit

Services Fund, the legislature approved a 4.5% increase in the state's contribution for employee benefits and establishment of a "Reserve for Rate Stabilization." The Reserve for Rate Stabilization was calculated as the difference between the amount of funds available (\$18 million) and the required Reserve for Incurred by Not Reported Claims (IBNR) (\$12.8 million). The agency testified the additional Reserve was necessary to protect employees from increases in dependent premiums or decreases in benefits should the health care cost trend increase dramatically. A letter of intent from the money committees emphasized that the reserve should not be used to employee increase benefits.

In July 1995 the actuary significantly altered calculation of the amount required for the IBNR Reserve. This resulted in a decrease in the required reserve from \$12.8 million to approximately \$8.0 million. In addition, the amount of funds available increased from \$18 million to \$24 million. *(The agency and the actuary indicate the additional \$6 million is the result of problems with accounting and reporting.)* These changes resulted in an additional \$10.8 million in funds being available. The Committee on Benefits considered these funds as "Unreserved and Unallocated Retained Earnings" and considered the amount to be available to increase benefits. Therefore, the Committee authorized a second pair of glasses for calendar year 1996, authorized payment for hearing aids effective January 1, 1996, and increased the subsidy on dependent premiums at the July 1995 meeting. **The Committee may want to have the agency discuss the increase in benefits in light of the letter of intent to not increase benefits.**

During FY 95 the Committee on Benefits commissioned Ernst and Young to complete an operational audit of the Benefit Services program. This operational audit primarily addressed the activities of the Committee on Benefits and the state health insurance program. The operational audit included recommendations to improve and strengthen the activities and controls over the Benefit Services fund. Attachment B is a summary of the recommendations of the audit and the action taken by the Committee on Benefits. In August 1995 the Committee on Benefits also received an operational audit of the Committee on Benefits third party administrator (TPA) which included recommendations for improvements to the operations of the TPA. A copy of the recommendations and the action taken is included as Attachment B.

- I. **Mission Statement**--In accordance with the recommendation of the operational audit completed by Ernst and Young, in August 1995 the Committee on Benefits adopted the following mission statement:

"The mission of the Committee on Benefits is to provide the most comprehensive, cost-efficient and highest quality health care program possible for the employees, retirees and their dependents participating the State of Nevada's employee benefit programs. Such a program can be maintained only when costs are appropriately controlled, participants are encouraged to access care in an efficient manner, and wellness/prevention of illness programs are emphasized. Such a program will be successful when participants have a high degree of satisfaction with the plan design, cost and vendor performance of the employee benefits program."

The above mission statement is proactive, goal oriented, and understandable. **This mission statement will undergo further examination and possible revision in the training program on performance indicators.**

- II. **Goals and Objectives**--Subsequent to August, 1995 the Committee on Benefits began the establishment of Goals and Objectives for the program. Three goals have been identified - each goal is supported by one or more related objectives which are necessary to achieve the goal or measure achievement of the goal. The goals and objectives are consistent with the mission statement.
- III. **Relevant Statutes**--The activities of the Committee on Benefits and the operation of the group insurance program for state officers and employees is specified by NRS 287.041 to 287.049. These statutes are consistent with mission of the benefits services plan. The Fundamental Review Committee may remember that two bills were introduced during the 1995 legislative session to change the composition of the Committee on Benefits to include employee groups other than the State of Nevada Employees Association (SNEA). Neither bill passed. This may continue to be an issue in upcoming legislative sessions.

The Committee on Benefits promulgates the Administrative Regulations contained in Chapter 287 of the Nevada Administrative Code. There were no additional regulations promulgated in FY 95 or FY 96.

The policies of the Committee were adopted in response to the operational audit report and included the following topics:

- * Voluntary Products (provides convenience of payroll deduction and a better product at a more competitive price)
- * Development of self-funded plan premium rates (specifies the data to be used, the coverage, the rating structure and the development of dependent premium rates) **This policy specifies “The plan will contribute 50% of the difference between the cost of dependent coverage and the cost of employee only coverage to active State employee participants in the Self-Funded Plan.”** As discussed in the Overview section, during 1994, 1995 and 1996 the plan generated a sizeable excess reserve (approximately \$14,000,000). The committee has elected to “spend down” this excess reserve through additional subsidization of dependent premiums. This new policy resulted in a 42% decrease in the cost of covering a spouse, a 41% decrease in coverage of dependent children and 28% decrease in the cost of family coverage (spouse plus children). Below is a schedule of the actual employee deduction to cover dependents:

| Employee Deduction | 1992 | 1993 | 1994 | 1995 | 1996 |
|------------------------------|----------|----------|----------|----------|----------|
| Employee & Spouse | \$90.00 | \$147.35 | \$154.45 | \$154.45 | \$90.30 |
| Employee & Child(ren) | \$130.00 | \$130.45 | \$136.77 | \$136.77 | \$81.16 |
| Employee & Spouse & Children | N/A | \$206.46 | \$240.70 | \$240.70 | \$171.34 |

The committee may wish to have the agency project the impact of this new policy. How long will the excess reserve last? How does the committee intend on funding this policy when the excess reserve is eliminated? How much would the state contribution have to be increased to support this policy after the excess reserve is eliminated? How was the excess reserve, which is being used to fund this policy, generated? (The Fundamental Review Committee may remember a 1995 legislative session bill proposed a \$75 per month subsidy for dependent coverage. The subsidy was not approved.)

* Use of surplus (Use of any excess of revenues over expenses)

* Statement of Adherence to NRS Chapter 689B (Group and Blanket Health Insurance)

IV. Performance Indicators--In response to input from a variety of sources, the Committee on Benefits has recently begun re-evaluation of their performance indicators. While some of the proposed performance measures will continue to measure outputs, they will also allow evaluation of progress toward achieving the mission of "*providing comprehensive, cost-efficient and high quality health care which results in a high degree of participant satisfaction with the plan.*" To measure progress in achieving the mission, the Committee on Benefits instructed staff to produce a "customer survey". This survey was mailed to all participants on the plan in December 1995. The results of the survey can be used to evaluate vendor and staff performance. Following are some results of the survey, as reported by Risk Management staff.

The overall benefits program meets my needs - 79.4% agree or strongly agree
- 11.3% disagree or strongly disagree

The benefits are worth the contributions I must make - 68.2% agree or strongly agree
- 14.9% disagree or strongly disagree

The Risk Management Division is responsive and helpful when I have questions about my benefits or need assistance
- 63.7% agree or strongly agree
- 13.5% disagree or strongly disagree

Coresource pays my medical/dental claims in a timely manner
- 65.4% agree or strongly agree
- 18.0% disagree or strongly disagree

In addition to the above quality issues, the following average cost per enrollee per month is provided:

| | 12 mo. <u>Avg Cost</u> | <u>% Incr.</u> | <u>Health Care CPI</u> | <u>State Contr. Increase</u> |
|------------|---------------------------|----------------|----------------------------|----------------------------------|
| FY 94 | \$196.44 | | | |
| FY 95 | \$207.85 | 5.8% | 3.9% | 5.96% |
| FY 96(YTD) | \$214.85 | 3.4% | 3.8% | 4.5% |

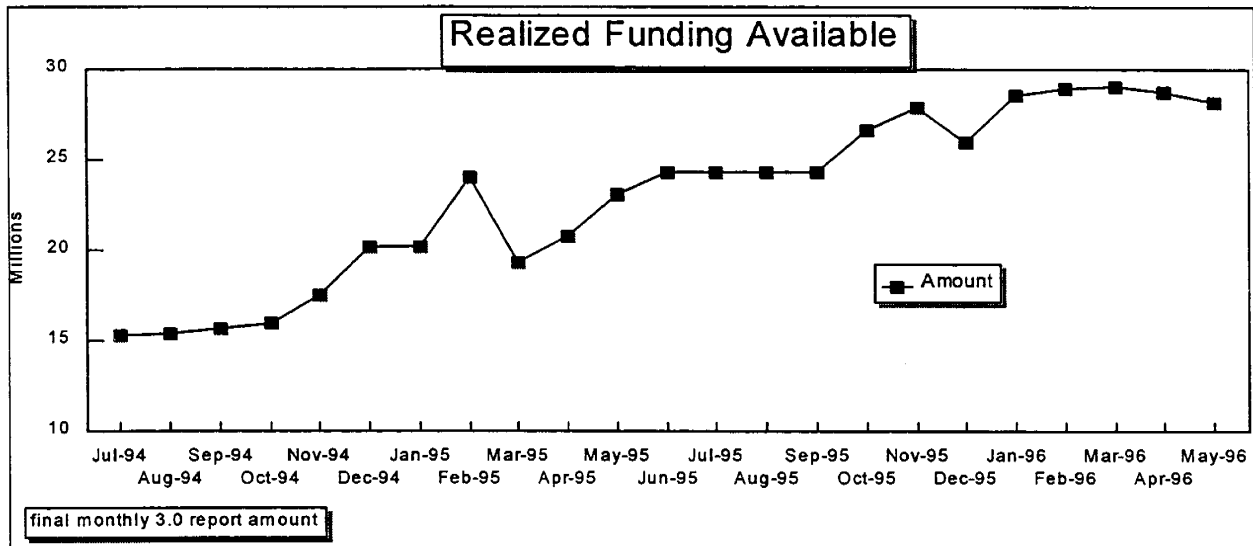
The agency has also drafted goals in relationship to claims payment turnaround time (80% within ten working days); claims payment financial accuracy (98%); percentage of participants utilizing PPO providers (90%) and percentage of administrative costs to total costs (12%). These goals and performance indicators are currently being reviewed as part of the Department of Administration's training class on performance indicators. A significant issue to be resolved is the definition of some of the indicators - administrative costs need to be defined (does it include third party administrator? postage to mail benefits binder?) and total costs need to be defined (does it include payment for insured or voluntary products?) **The agency will continue to refine these indicators to present with the FY 98 and FY 99 budget.**

- V. **Differences Between FY 95 and FY 96**--The 1995 Legislature revised the budget to provide separate categories of insured/contract costs (Cat 10), and claims costs (Cat 12). In addition, all costs related to operations of the employee benefit program are to be recorded in category 04 (printing, copying, postage). The financial information provided for this account for FY 95 has been adjusted to be consistent with FY 96 accounting. **However, during FY 96 the agency has recorded printing and postage costs in the amount of \$35,417 in the insured/contract costs which should be moved to the operating category.**

Three new member services staff (program assistants) and an accountant III were authorized for FY 96. A Management Analyst position which is responsible for state employees workers' compensation was moved to another account. This change in personnel was responsible for one-time costs associated with equipment for the new staff. In addition, the Risk Management Division moved from the Blasdel building to a non-state owned building in FY 96. These one-time costs will be discussed in more detail with the applicable category, and should be removed from the base budget calculation.

- VI. **Revenues**--The first line on the financial information and the second largest resource is "Balance Forward (net)". This line represents the net difference between the balance forward from the prior year and the balance forward to the next year. In the budget column, the net is determined by subtracting the budgeted reserve from the budgeted balance forward. A balance forward, or reserve, is necessary for the "incurred but not reported" (IBNR) claims. The appropriate amount of the reserve is subject to professional interpretation but can generally be estimated at between 1.5 months of claims (very aggressive) to 2.5 months of claims (very conservative). The Committee on Benefits has elected a "middle" approach and established the IBNR reserve at 1.75 months of claims (\$8.6 million). In addition to IBNR reserve, the committee was budgeted a reserve of \$5.2 million to deal with inflationary increases in the health care cost above the 4.5% funded by the legislature. The current

realized funding available is approximately \$28 million. *(While realized funding available is not exactly equivalent to the total reserve available, it can be used as an indicator. Realized funding available is the net cash available to the budget account. To obtain an*



accurate reserve amount, it would be necessary to accrue any outstanding costs. Since the Committee on Benefits only recently began receiving accrual based statements, the actual reserve figure is not available on a historic basis - therefore realized funding available is being used.)

The chart above shows the growth of this reserve since July 1994:

As indicated in the relevant statutes (Section III of this Report), the Committee on Benefits has elected to decrease the cost of dependent cost with the excess reserve which has been generated. The decrease in reserve since January 1996 represents the effect of the dependent subsidies. **As indicated under relevant statutes, the potential effect on premium rates, when the reserve is eliminated, should be discussed. The agency should also address the time-frame for elimination of the excess reserve.**

Cost allocation/Admin Assessments represent the charges to other budget accounts in the Risk Management Division for the accounting and supervision functions which are provided by this account.

Treasurer's interest has shown a significant increase over prior years. This is due in part to the slight increase in interest rates, but is mainly attributable to the growing reserve. Treasurer's interest will need to be adjusted based upon the projected reserve level.

Reimbursements/Miscellaneous Revenue represent payments from Department of Prisons for the third party administrators processing of the prison medical claims. This amount (Projected FY 96 - \$301,644) matches the costs recorded in category 18- Prison Medical Administration, and will be eliminated when the Department of Prison's completes their

proposal for third party administrator services. In addition to the Department of Prison's payments, reimbursement is received from vendors (HMOs, Pharmacy provider) for printing costs for changes made to the Benefits Directions binder as a result of changes in the vendor's program. The agency is prepared to bill the vendors \$116,964 for changes during this plan year.

The largest revenue source is insurance premiums. Approximately one percent of the premiums are received through the "COBRA" program which allows employees to continue insurance coverage for a limited time after leaving state service or after certain lifestyle changes (death or divorce of covered individual).

Revenues from insurance premiums (which include state contributions) are projected at the budgeted level. **Since the budgeted figures did not include the reduction in dependent premiums, the agency should discuss the effect of the dependent premium subsidy on the revenue projections. The effect of the subsidy will need to be annualized and projected forward for the FY 98 and FY 99 budgets.**

The annual audit financial report indicated the agency had not been reconciling the premium receipts from the insured agencies (state and non-state) to the covered population. In addition, the operational audit report indicated significant potential liability existed from the errors in the eligibility information (employees who were no longer covered were not removed from the eligibility file, although payment was not made for coverage.) The financial audit report indicated subsequent to June 30, 1995 the reconciliation of premium receipts to the eligibility file was occurring. **The Committee may wish to receive assurances the reconciliation of the premium payments to the eligibility file is occurring on a monthly basis and is current. The Committee may wish to inquire whether any financial loss occurred due to the problems with the eligibility file.**

VII. Expenditures--Personnel Expenditures

As indicated previously, the Benefit Services account was authorized four new positions during FY 96 and one position was transferred to another account. The cost of the four positions will need to be annualized for the base budget. Three positions were authorized to form a member services unit which would be responsible for answering questions from participants and assisting participants in proper utilization of the program and payment for services. **The committee may wish to ask the agency to indicate the impact of the new positions on the ability of the eligibility unit to process changes in eligibility and provide additional information to the pay centers.**

An Accountant II position was also authorized during the last legislative session. This position is responsible for, among other things, preparing monthly accrual based financial reports for the committee. This position works closely with the actuary to monitor claims costs and payments to vendors.

Overtime costs for this budget account have decreased significantly from FY 95 (\$46,295) to FY 96 (\$11,381). During FY 95 the agency converted from having the third party

administrator process the eligibility data to an in-house eligibility system (BISON). During the open enrollment period, data was entered on both the old system and the new system. This resulted in the large amount of overtime. Now that the new system is fully operational, the overtime decreased.

Vacancy savings are not budgeted for agency.

Out of State Travel

In FY 95 the risk manager traveled to two national conferences. In addition, three trips were made out of state to evaluate vendors (one visit included the Committee on Benefits chairman). The person responsible for the eligibility system also traveled for a national conference. During FY 96, the risk manager again traveled to two national conferences and the eligibility system manager traveled to two conferences on the eligibility system. **Although initially the agency projected the total budgeted amount to be expended in out of state travel, they now indicate all out of state travel has been completed. The May 31, 1996 3.0 report indicated \$3,390 had been expended in out of state travel.**

In State Travel

One of the largest generators of in state travel costs is the group benefits manager's travel around the state to hold the annual open enrollment meetings. Annually, after the Committee on Benefits establishes rates and benefits for the next plan year, the group benefits administrator will travel to all areas of Nevada to advise state employees of changes in the benefits program. In addition, the Committee on Benefits has monthly meetings, including a two day planning meeting. **Although initially the agency projected the total budgeted amount to be expended, the May 31, 1996 3.0 report indicates \$11,152 has been expended. It appears in state travel will be closer to the FY 95 (\$12,824) actual amounts than the FY 96 budgeted amount (\$14,568).**

Operating Costs

Operating costs include the supplies and day to day operation of the risk management division. In addition, costs associated with the day to day operations of the benefit program - printing, postage, audit services, Committee on Benefits meeting minutes - were moved from the Self-Insured Program Costs category 10 to the operating category. This was done to reflect that those costs are for the entire benefits program - not just the self-funded program.

Below is a list of the contracts recorded in category 04.

| Operating Contracts - Category 04 | | | |
|------------------------------------------|-----------|-----------|-----------|
| Contract | FY 94 | FY 95 | FY 96 |
| CMQ Reporting | \$8,766 | \$6,302 | \$8,200 |
| Mailing Svcs | \$16,365 | \$10,791 | \$5,408 |
| Retiree Newsletter | \$8,517 | \$11,146 | \$9,480 |
| Financial Audit Services | \$15,550 | \$17,100 | \$14,850 |
| Postage | \$52,260 | \$41,002 | \$92,145 |
| Printing and Copying | \$33,536 | \$24,626 | \$32,355 |
| Benefits Direction Binder | \$320,845 | \$151,314 | \$274,000 |
| Miscellaneous | \$713 | \$144,913 | |

Other Contract Services - The agency paid \$1,999 in design work in relation to their move to their new location. **This amount will need to be eliminated from the adjusted base budget for FY 98 and FY 99.**

Equipment Repair - Telephone equipment repair costs, in the amount of \$7,985, were incurred in relation to the move to the new location. **This amount will need to be eliminated from the adjusted base budget for FY 98 and FY 99.**

Cellular Telephones - The agency paid \$1,677 in cellular phone charges in FY 95 and \$747 through March 15, 1996. The agency has one cellular telephone which is assigned to the risk manager, or is used by the staff when traveling. The costs of the cellular phone is approximately \$100 per month. The agency's policy is that it be used for state business only, not necessarily emergency use only. **The committee may wish to ask the agency to explain their cellular phone policies. Rural clinics' cellular phone charges are approximately \$30 per month with cellular usage being limited to emergency situations only.**

Insured Products/Contract Costs (Self Insured Program Costs) -- This category is now used to record the costs of insured products (life insurance, accidental death and dismemberment insurance, HMO payments, actuarial services, claims payment services, etc). These costs are generally put to bid on a three to five year cycle and are heavily participant driven. *(Note - the totals may not agree to the amounts in the financial information summary pages due to changes in the method of recording costs between years.)*

| Insured Products/ Contract Costs - Category 10 | | | |
|-------------------------------------------------------|---------------------|---------------------|---------------------|
| Contract | FY 94 | FY 95 | FY 96 |
| LTD (Equitable) | \$1,147,394 | \$1,008,190 | \$1,203,992 |
| T/A & ADD | 209,395 | 210,096 | 218,558 |
| Vision Admin Fees | 154,659 | 147,769 | 154,895 |
| Mail Order RX | 113,309 | 119,117 | 123,813 |
| FHP | 298,002 | 1,075,901 | 1,687,000 |
| HPN | 6,691,261 | 7,473,456 | 7,350,915 |
| HHP | 4,675,052 | 5,522,407 | 6,104,595 |
| Life ins.. | 1,947,183 | 1,876,700 | 1,961,900 |
| Actuary/Consultant | 189,617 | 267,438 | 162,187 |
| TPA | 1,884,848 | 2,033,553 | 1,743,965 |
| Psych Systems-PPO Access & utilization review | 363,945 | 361,928 | 369,122 |
| PPO Access | 771,415 | 816,231 | 860,833 |
| Business Accident Insurance | 209,395 | 210,096 | 218,558 |
| Subtotal | \$18,655,475 | \$21,122,882 | \$22,160,333 |

Medical Claims Cost -- This category is currently used to record actual payments to providers for medical, dental and vision services which have been provided. Changes in this category are due to changes in payment levels to providers, changes in benefits, changes in utilization and changes in the number of participants. This category is budgeted when the actuaries determine the cost per member per month and project future costs based upon proposed changes in benefits and the number of participants.

| Claims Cost - Category 12 | | | |
|----------------------------------|-------------------|-------------------|-------------------|
| Medical & dental | 45,008,979 | 48,000,034 | 56,917,807 |
| Vision | 449,703 | 1,184,241 | 1,615,050 |
| Subtotal Claims | 45,458,682 | 49,184,275 | 58,532,857 |

The growth in claims payments between 1994, 1995 and 1996 reflect the increased costs of restoring benefits which were eliminated or reduced during 1993 and 1994.

The third party administrator has not been able to meet their contractual performance agreement to pay 80% of all claims within ten working days of receipt. **The committee may wish to ask the agency to discuss the impact of the slow claims payment on their ability to project future costs of the program.**

Wellness Program -- The Benefit Services fund sponsors annual "Wellness Fairs" to allow participants (state retirees, employees, and their dependents) to receive a variety of health screening tests and health education information. This program has grown in the past several years from a one-day event in Carson City to multiple fairs in Elko, Carson City and Las Vegas. The contract for the wellness fairs is put to bid.

Prison Medical Administration -- These are payments made to the third party administrator to pay claims and provide utilization review of prison medical bills. The costs recorded in this account should match the reimbursement from the Department of Prisons.

Information Systems -- As previously discussed, the agency implemented a new eligibility system during FY 95. The agency has negotiated an agreement to pay Department of Information Services (DIS) a flat amount per month for programmer services. This is inconsistent with the way DIS normally charges user agencies. **The Committee may wish to ask the agency to discuss the payments to DIS. The agency was required to adjust their budget to record higher than anticipated billings from DIS.**

VII. Enhancement Items

All enhancement items have previously been discussed.

VIII. Audits

As previously indicated, the agency contracted with Ernst and Young in FY 95 to complete an operational audit. Attachment A provides a summary of the Recommendations, priority and status. Under staff support functions, the agency indicates the status as "request denied". The agency requested a chief executive officer position during the 1995 legislative session. The request was denied by the legislature because the duties and responsibilities of the position duplicated the duties of the risk manager position. **The committee may wish to ask the agency to address any recommendations which may have a budgetary impact.**

An operational audit was also conducted on the agency's third party administrator. This agency revealed several problem areas in claims processing. Attachment B is a status report from the third party administrator on the implementation of the audit recommendations. The report indicates that all recommendations have been implemented. The Committee on Benefits has indicated an interest in having a follow-up audit completed to ensure all recommendations have been implemented. **The committee may wish to ask the agency to discuss the budgetary impact of both the initial audit and the follow-up audit.**

**FUNDAMENTAL
REVIEW OF BASE BUDGET**

**CONSUMER AFFAIRS DIVISION
DECEPTIVE TRADE
101-3811**

**DEPARTMENT OF
BUSINESS AND INDUSTRY**

JUNE 24, 1996

FUNDAMENTAL REVIEW OF BASE BUDGETS

CONSUMER AFFAIRS DIVISION

101-3811

Deceptive Trade/Telemarketing

The Consumer Affairs Division was established by Executive Order of Governor Mike O'Callaghan in April 1971, and was given resources by the 1973 Legislature with the following three-fold mandate:

- ▶ to protect consumers from deceptive trade practices
- ▶ to encourage free trade in the marketplace for Nevada business
- ▶ to further consumer rights education throughout the State

During the 1989 Legislative Session, a self-funded Telemarketing Unit was created within the Consumer Affairs Division to register and process consumer complaints related to telephone fraud. Since that time, the Legislature has refined the jurisdiction and funding associated with the Telemarketing Unit. First, effective July 1, 1993, the Legislature transferred the primary responsibilities for investigation and enforcement of the telemarketing industry from the authority of the Consumer Affairs Division to the Telemarketing Fraud and Deceptive Trade Unit of the Attorney General's Office (budget account 1034). Second, during the 1995 Legislative Session, the Telemarketing Unit of the Consumer Affairs Division (budget account 3845) was consolidated with the primary budget account for deceptive trade in the Consumer Affairs Division (budget account 3811). This consolidation is supported entirely with an appropriation from the State General Fund, and all revenues collected by the Division are deposited to the State General Fund. The intent of the consolidation was to provide a consistent funding source, to encourage the Division to be self-supporting, and to create a Deceptive Trade Unit not identified with a particular industry.

For a comparison of FY 95 and FY 96 revenues and expenditures for the deceptive trade function, please refer to the attached spreadsheet summary for budget account 3811. The FY 96 Legislatively Approved Budget appears to reveal a decreased authorization of \$551,683 from actuals realized during FY 95 (FY 95 Actual \$1,348,057 - FY 96 Legislatively Approved Budget \$796,374 = \$551,683 variance). To reconcile FY 96 with the FY 95 structure, two notations must be made. First, for FY 96, 17 authorized positions are assigned to deceptive trade. Although a total number of twenty positions were authorized for the Consumer Affairs Division during FY 95, three of those positions supported the Director's Office for the Department of Business and Industry. During FY 96, these three positions transferred to the Director's Office in Carson City with a corresponding adjustment to the Personnel Services Category in the amount of \$100,267. Second, for FY 96, expenses for the Attorney General's Cost Allocation are eliminated. During FY 95, the Division incurred \$326,428 of allocated expenses from the Attorney General's Office.

Currently, the Division regulates business practices under authority of the State's Deceptive Trade Practices Act (NRS 598), Unfair Trade Practices Act (NRS 598A), Telephone Solicitation Act (NRS 599B), Consumer Reporting Act (NRS 598C), and Miscellaneous Trade Regulations and Prohibited

Acts Laws (NRS 597). The Division registers telemarketing businesses and salesmen, sports betting information services, credit service organizations, magazine sales representatives, health membership clubs, dance studios, martial arts studios, weight loss clinics, and discount buying clubs. Financial securities are posted by these businesses, and the Division is authorized to receive, investigate, and adjudicate written complaints by injured consumers against those securities.

An overview of the total costs associated with providing consumer protection services for the State of Nevada by the Consumer Affairs Division and the Telemarketing Fraud and Deceptive Trade Unit of the Attorney General's Office follows:

| Agency and Budget Account | FY 96 Authorized Positions | FY 95 Actual Expenses | FY 96 Legislatively Approved Budget |
|-------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------------------------|
| Consumer Affairs Division Budget Account 3811 | 17 | \$1,348,057 (includes \$326,428 for Attorney General Cost Allocation) | \$796,374 |
| Telemarketing Fraud and Deceptive Trade Unit Budget Account 1034 | 10 | \$0 (costs allocated to Consumer Affairs; offset to Attorney General's revenue) | \$591,629 |
| Total | 27 | \$1,348,057 | \$1,388,003 |

The scope of this report is to provide a line item review of revenue and expense items for the base year of the upcoming biennium in relationship to the mission and statutory authority of the Consumer Affairs Division. Attention should also be directed toward aggregate costs associated with consumer protection, educational services, and regulatory enforcement and the potential for maximizing the State's return on the investment (including, the monies deposited to reimburse the State General Fund appropriation, and the improvement of fair trade for Nevada consumers).

I. **Mission Statement**--In compliance with NRS 353, the Consumer Affairs Division's mission statement that provided the framework for the current biennium was presented at the January 29, 1996, committee meeting for the Fundamental Review of Base Budgets. **For the 1997 Legislative Session, the Division will revise their mission statement, and, as one of the participants in the State-sponsored performance indicator training, should produce a mission statement that is achievable and consistent with the regulatory intent.**

II. **Goals**--As articulated in the Department of Business and Industry portion of the 1995-1999 Nevada Strategic Plan, the Consumer Affairs Division is the primary agency responsible for regulating fair trade and providing consumer education services in the State of Nevada. To achieve this purpose, the Division established the following goals to facilitate the mission of the agency:

- ▶ To establish the Consumer Affairs Division as the number one agency in consumer services in Nevada, through a comprehensive program that includes public education and awareness, efficiency and communication.
- ▶ To review and revise the performance indicators for the Division.
- ▶ To review and revise the mission statement for the Division.

The current goals address the immediate priority of updating the Division's mission and performance indicators. For the 1997 Legislative Session, the Division will revise their goals, and, as one of the participants in the State-sponsored performance indicator training, should produce goals that target areas for improvement as proscribed by the relevant statutes.

The Division established these additional goals, indicating that implementation is dependent upon assistance from the Legislature during the upcoming 1997 Session:

- ▶ To become more efficient with complaint handling by updating computers for the entire division and improving the telephone system.
- ▶ To go online with the northern office, other state agencies, and the rest of the country in matters related to consumer fraud.
- ▶ To establish an automotive repair board to regulate workmanship, automotive technician's training, certification, and repairs.
- ▶ To strengthen consumer laws for automotive repair .

These additional goals target specific areas for improvement during the upcoming biennium. The Committee may wish to encourage the Division to document telephone and data processing requirements for consideration by the Legislature, and assess the

current capabilities resulting from recent hardware and software purchases, including desired efficiencies for the complaint handling process. In addition, the Committee may wish to encourage the Division to prepare the Bill Draft Request (BDR) outlining their recommendations for strengthening consumer laws for automotive repair in accordance with time lines established by the Budget Division.

III. Performance Measures --- The performance measures presented to the Legislature in 1995 offered information about workload levels, and did not adequately measure the Division's product or productivity, the consumer's satisfaction with investigations, or the impact of consumer education programs on the frequency or severity of complaints. A summary of the 1995 indicators follows:

- ▶ Complaints opened
- ▶ Cases resolved
- ▶ Telemarketing registrants
- ▶ Complaints mediated
- ▶ Hearings conducted
- ▶ Legal actions conducted on behalf of consumers

In the information provided by the Division for this report, a draft summary of the 1997 performance indicators follows:

- ▶ Complaints opened
- ▶ Complaints closed
- ▶ Telephone call received
- ▶ Walk-ins
- ▶ Fraud Hot Line Calls received since 10/1/95
- ▶ Business inquiries since 10/1/95
- ▶ Total number of cases sent to AG for legal actions
- ▶ Total number of litigations filed
- ▶ Registered Telemarketing owners
- ▶ Registered Buying Clubs
- ▶ Registered Credit Services
- ▶ Registered Dance Studios
- ▶ Registered Health Clubs
- ▶ Registered Martial Arts
- ▶ Registered Weight Control Clinics
- ▶ Telemarketing hearings for restitution
- ▶ Number of bonds held by the division on existing companies
- ▶ Number of Stings performed
- ▶ Total amount of bonds held by the division
- ▶ All other bonds collected by the division
- ▶ Telemarketing registration fees collected
- ▶ Total deceptive trade restitution to consumers (cash)

- ▶ Total amount of relief to consumers (services and products)
- ▶ Total telemarketing restitutions to consumers (cash)
- ▶ Maximum amount of relief or restitution to a consumer
- ▶ Minimum amount of restitution to a consumer

The draft performance indicators are in a program description format, to track the efforts of the Division, and do not address the outcomes of the activities performed. The Division is, however, currently tracking these activities and will provide FY 96 statistics for discussion during the Fundamental Review of Base Budgets meeting. For the 1997 Legislative Session, the Division will revise their performance measures, and, as one of the participants in the State-sponsored performance indicator training, should produce indicators that measure results (for example, the ratio of complaints resolved in relation to the number of complaints opened) rather than just efforts (for example, the number of complaints opened). As the process becomes more refined, the measurement indicators will become a reference point for setting goals, establishing priorities, and allocating resources. The Committee may wish to indicate to the Division that outcome-base performance indicators are expected.

IV. Regulatory Authority --- The Consumer Affairs Division collects fees, registrations, and fines according to the statutory authority contained the NRS Title 52, Trade Regulations and Practices. The following statutes apply:

- ▶ NRS 598 Deceptive Trade Act
- ▶ NRS 598A Unfair Trade Practices Act
- ▶ NRS 598C Consumer Reporting Act
- ▶ NRS 599B Telephone Solicitation Act
- ▶ NRS 597 Miscellaneous Trade Regulations and Prohibited Acts Laws

In addition, effective with the 1995 Legislative Session, two bills amended provisions governing deceptive trade practices and regulations governing exemptions for nonprofit organizations. First, SB 488 provides that fees, civil penalties, and other monies, excluding criminal fines and restitution, collected by the Attorney General during enforcement of trade practice laws must be deposited to the State General Fund. The bill also amends the laws governing telephone solicitation by narrowing the registration exemption for nonprofit organizations. Second, SB 479 authorizes the Commissioner of the Consumer Affairs Division and the Director of the Department of Business and Industry to create and appoint advisory committees to assist them in their duties. The bill also allows the Commissioner to order “show cause” hearings, order a “cease and desist” request, and impose fees associated with the hearings. The bill authorizes the Attorney General to enforce compliance with the Commissioner’s order in a court of law, and authorizes the Commissioner to release, under specific conditions, information about consumer complaints against businesses. Finally, the bill provides immunity for the Commissioner and the Director of Business and Industry from civil and criminal liability for disclosing complaint information.

- V. **Revenues** --- Effective with the 1995 Legislative Session, the Consumer Affairs Division is supported (100%) with an appropriation from the State General Fund. The shift to a General Fund appropriation was intended to improve the regulation of deceptive trade by providing a consistent funding source, and create a Deceptive Trade Unit not identified with a particular industry. Registration fees, fines, and court ordered settlements collected by the Division, in concert with the Attorney General's Office, are deposited directly to the State General Fund to encourage the agency to be more self-supporting.

The following revenue statistics for FY 95 and FY 96 were provided by the Consumer Affairs Division, and include the fees collected by the Attorney General's Office for telemarketing fraud and deceptive trade (budget account 1034):

| Deceptive Trade Revenue Sources | FY 95 Actual | FY 96 Projected | FY 96, thru 5/28/96 | FY 96 \$ Variance Incr/(Decr) Projected |
|-------------------------------------------|---------------------|------------------------|----------------------------|------------------------------------------------|
| Telemarketing / Registration Fees | \$406,000 | \$500,963 | \$342,060 | (\$158,903) |
| Fines | \$61,078 | \$14,000 | \$3,800 | (\$10,200) |
| Court Ordered Deceptive Trade Settlements | \$258,313 | \$275,000 | \$99,294 | (\$175,706) |
| Total | \$725,391 | \$789,963 | \$445,154 | (\$344,809) |

According to the information provided by the Division for this report dated May 31, 1996, only 56% of the revenues budgeted to be generated in FY 96 have been deposited to the State General Fund. This reduction represents a significant decrease from the revenues generated during FY 95. As discussed during the 1995 Legislative Session, a perceived downside of funding an agency with a 100% appropriation from the State General Fund is the potential for decreasing the agency's incentive to collect the fees and fines budgeted. The Committee may wish to ask the Division to explain why General Fund revenues collected have not met anticipated levels for FY 96. Is the Division actively pursuing settlements with the Attorney General's Office? Are settlements generally collectable or do bad debts occur?

- VI. **Expenditures** --- In FY 95, the Consumer Affairs Division used two budget accounts to separate Deceptive Trade activity (budget account 3811) from the Telemarketing function (budget account 3845). During the 1995 Legislative Session, the two budget accounts were combined into one account with two special categories: Category 11, Special Investigations, which identifies costs associated with "sting operations," and Category 12, Deceptive Trade, which allocates Division expenses for investigative functions.

For the 1997 Legislative Session, the Division will recommend the Deceptive Trade Category be collapsed into the existing Operating Expense Category. If the recommendation is accepted, FY 96 expenses allocated to Deceptive Trade will be transferred to the Operating Expense Category reflect the new accounting structure for the base year.

Expenditure line-items for the base year (FY 96) were reviewed for reasonableness, appropriateness, and relationship to agency mission:

- A. **Personnel Services** --- The reorganization of the Consumer Affairs Division during the 1995 Legislative Session produced unchanged staffing levels for the deceptive trade functions. It should be noted, however, that three of the existing FY 95 positions for budget account 3811 were transferred to the Director's Office of Business and Industry for administrative support and to establish the Industrial Bond Development Fund. The Division currently employs 17 authorized positions, with 14 of the positions located in the Las Vegas office and the remaining three positions located in the Reno office. The distribution of employees between the northern and southern offices reflects the business growth in Clark County. **The Division will provide a functional organization chart during the Fundamental Review of Base Budgets meeting.**

According to the information provided by the Division to clarify the customer complaint process, cases are "opened" when a written complaint is received from a customer. At that time, the Division issues a case number to the complaint, and assigns an investigator who will assess potential violations of the statutes governing deceptive trade. Cases are "resolved" in three ways. First, a case is "resolved" when an investigator determines that a business has not violated the statutes. Second, a case is "resolved" when a business violates the statutes and agrees to provide relief to the customer. Third, a case is "resolved" when a business fails to respond to the investigator's requests, and the case is forwarded to the Attorney General's Office for legal action.

The first and second classifications of "resolved" cases are indicative of the successes realized by the Consumer Affairs Division. However, the third classification of "resolved" cases, those forwarded to Attorney General's Office for legal action, overstates this success rate because the complaint remains unresolved for the consumer. The accuracy and completeness of evidence assembled by the Consumer Affairs Division investigators are crucial for the

effective prosecution of cases forwarded to the Attorney General's Office for legal action. The Committee may wish to indicate to the Division that the classifications of "resolved" cases described above should be tracked separately, including the status of legal action pursued by the Attorney General's Office. The Committee may wish to ask the Division to discuss the average length of time required to resolve a case and provide relief to the customer? What are the jurisdictional issues governing cases handled by the Consumer Affairs Division and the Attorney General's Office?

According to the caseload statistics provided by the Division for FY 95, the Division "opened" 9,255 cases (received written complaints from customers), and "resolved" 6,482 cases. It should be noted that a timing variance may occur during the processing of cases, causing cases to not always be "resolved" during the same fiscal year reporting period as "opened." During this period, the four investigators in the south each maintained an average of 2,163 cases ($4 \times 2,163 = 8,650$ "opened" cases), and the two investigators in the north each maintained an average of 451 cases ($2 \times 451 = 902$ "opened" cases), accounting for the 9,255 cases "opened" cases ($8,650$ in the south + 902 in the north = $9,255$).

To improve the caseload ratio in the Las Vegas office, the Division submitted a request to the Interim Finance Committee on January 31, 1996, for the reclassification of a Program Assistant II to a Compliance/Audit Investigator II. The reclassification was approved, and the position filled on April 15, 1996. Labor costs associated with this position will be annualized when the Division submits their budget request for the upcoming biennium. It should be noted that the Commissioner of the Consumer Affairs Division deferred hiring authorized investigators during FY 95. The Division will budget for the full complement of staff during the upcoming biennium.

During FY 96, through April 30, 1996, the Division reported 6,214 "opened" cases, with 5,455 of the cases "resolved." By annualizing the "resolved" cases for the full 12-month period, the potential for "resolved" cases is 6,546, an increase of 64 cases, or 1% since FY 95. **The Committee may wish to ask the Division to discuss the adequacy of staffing levels for investigative and enforcement duties.**

In the overtime statistics provided for this analysis, the Division reported 644 hours or \$6,599 during FY 95 for overtime and (paid and compensatory) related to deceptive trade investigations and administrative requirements. For FY 96, the Division estimates overtime requirements not to exceed 201 hours, which is less than 1% of the total available hours ($2,080$ per year per employee \times 17 employees = $35,360$ total available hours). The current use of overtime is not excessive and should be excluded from the base as an adjustment to FY 96. **The Committee may wish to ask the Division if the additional overtime experienced during FY 95 resulted from staffing deficiencies or held vacancies.**

- B. Out-of-State Travel--Out-of-state travel during the base year was expended for the Commissioner to attend an annual meeting of the National Association of Consumer Agency Administrators, and for the Compliance/Audit Investigator II to attend an annual certification and training meeting for the Council on Licensure, Enforcement and Regulations. **These annual meetings are consistent with the mission of the Consumer Affairs Division, and may be included in the base year for the upcoming biennium. The Division should document the value of the conferences, and adjust the base year for known variances in commercial airfare costs for the 1998 and 1999 conference destinations locations.**
- C. In-State Travel--During FY 95 and FY 96 to date, the Division reported that the primary thrust of in-state travel was for the Commissioner and management staff to travel between Las Vegas and Reno/Carson City for administrative and budget purposes, and for investigators to verify deceptive trade practices in rural Nevada. The Division reported that for FY 96 additional in-state travel will be completed by the Commissioner and investigators to verify deceptive trade practices, attend hearings, and provide other enforcement duties in Reno and rural Nevada. During FY 95, the Division expended \$4,293 for in-state travel, and estimates FY 96 expenses to reach \$5,112, an increase of \$1,821 or 19% over FY 95 actuals. **The Division should document the results of the additional investigations completed during FY 96 and determine if the incremental expense is appropriate for the upcoming biennium.**
- D. Operating Expense--
1. Contract Services--The Division maintains an annual contract for security services with Alarmco in the amount of \$720, or \$60 monthly. The service provides 24-hour alarm and monitoring services, and protects the cash deposits received for telemarketing registration. **The contract was recently renewed, and should be included as a continuing expense for the upcoming biennium.**
 2. Cellular Phones--The Consumer Affairs Division utilizes six cellular phones, with four phones assigned to the Las Vegas office, and two cellular phones assigned to the Reno office. According to the information provided by the Division, cellular phones are used by the Commissioner, Program Officer and investigators to increase efficiency when out of the office. **Usage has remained consistent since FY 95, does not appear to be excessive, and may be included as a continuing expense for the upcoming biennium.**
 3. Dues, Registrations, and Publications--The Division subscribes to local and national publications to obtain educational information for the Commissioner, management staff and investigators. Annual dues are paid by the Division for the Commissioner's membership to the Las Vegas Chamber

of Commerce, the National Association of Consumer Agency Administrators, and the National Coalition for Consumer Education. **The dues, registrations, and publications support the mission of the Division, are not excessive, and may be included in the base as continuing expenses for the upcoming biennium.**

4. Non-State Owned Building Rent--During FY 95 and FY 96, rental expenses for the Park Sahara (Las Vegas office) and the Kietzke Plaza (Reno office) were allocated between the Operating Expense Category, and Deceptive Trade Category, based upon the number of positions performing deceptive trade functions. During the 1997 Legislative Session, the Division may recommend eliminating the separate category for the deceptive trade function. If the recommendation is accepted, the allocated building rent expenses in the Deceptive Trade Category for FY 96 will be transferred to the Operating Expense Category.

According to the building rent allocation information provided by the Division, total rent for FY 96 was estimated to be \$59,239, with \$48,655 for the Las Vegas office, and \$10,584 for the Reno office. For FY 96, office rent included a rate increase of \$0.20 per square foot (from \$0.90 to \$1.10) for the 4,663 square feet of space maintained by the Las Vegas office. Price increases were not incurred during FY 96 for the 882 square feet of space maintained by the Reno office at a rate of \$1.00 per square foot. **The current lease agreements should be included as continuing expenses for the upcoming biennium.**

5. Printing, Postage, and Copying Expenses--During FY 95, as a joint-effort to educate consumers, the Consumer Affairs Division and the Attorney General's Office developed the "Too Good to be True" guide. Costs associated with producing this consumer guide were one-time in nature, and do not impact the base year. **Printing, postage, and copying expenses support the Division's mission and should be included as continuing expenses for the upcoming biennium.**

- E. Equipment--During FY 96, the Consumer Affairs Division submitted a work program request to transfer authority from the Operating Expense Category to the Equipment Category to purchase a facsimile machine. Due to the amount of the transfer (\$1,880), the request was implemented by the Budget Division without review by the Interim Finance Committee. **Consistent with the current year budget instructions, all equipment purchases will be deleted from the base as an adjustment to FY 96.**

- F. Data Processing Services--In response to the 1995 Legislative Audit recommendation to improve management controls, the Division initiated a one-time contract with Data

By Design in the amount of \$4,500 to develop and install a Foxpro multi-user data base system. All expenses for this contract were incurred during FY 95. In compliance with the Department of Information Services policy, the Division purchased two Gateway Pentium systems, including Hewlett Packard laser jet printers and software upgrades for word processing and spreadsheet capability during FY 96. These hardware and software purchases have enabled the Division to expand their tracking of functional activities, and improve the accounting processes for customers. **U The Committee may wish to ask the Division to discuss requirements for continuing data processing development. Consistent with the current year Budget Instructions, hardware and software purchases will be deleted from the base as an adjustment to FY 96.**

- G. Special Investigations ("Sting Operations")--During the 1995 Legislative Session, the Consumer Affairs Division budget was approved with \$7,500 dedicated to Special Investigations. As reflected in the May 31, 1996, Budget Status Report, the Division expended \$2,036 during FY 96 to complete five sting operations in the automotive repair industry. According to the information provided by the Division, "sting operations" are performed in concert with the Attorney General's Office when complaints received about an individual business or a specific industry exceed an identified threshold. An additional five "sting operations" are planned for completion prior to the close of the FY 96. **The Division should document the results of "sting operations" completed during FY 96 and determine the appropriate levels for the upcoming biennium.**

VIII. Alternatives--

- A. Increased Effectiveness--Senate Bill 210 of the 1995 Legislative Session provided an appropriation of \$350,000 to the Office of the Director for the Department of Business and Industry to fund a joint Business Process Reengineering (BPR) project with the Department of Taxation. This appropriation continues the work started under Assembly Bill 153 of the 1993 Legislative Session that was intended to identify opportunities for improving efficiencies by eliminating duplicated forms and processes.

The scope of this project is to evaluate the current capability of licensing, titling, and fee collection processes in the Department of Business and Industry, and determine the feasibility of centralizing these processes within the Department of Taxation. The divisions/departments within the Department of Business and Industry included in the study are Agriculture, Consumer Affairs, Financial Institutions, Insurance, Labor Commission, Manufactured Housing, and Real Estate.

To date, the steering committee has issued the Request for Proposal for a contractor to provide the following by October 15, 1996:

- ▶ evaluate current licensing and fee collection processes
- ▶ determine the feasibility of centralizing these processes
- ▶ recommend technological solutions
- ▶ perform cost-benefit analyses for each recommendation
- ▶ identify costs associated with implementation

The successful bidder is excluded from future phases of the project, including any implementation. Due to the timing of the recommendations, the budget changes required by the project will be incorporated into the Governor's Recommends phase of the budget cycle. **The fiscal impact to the Consumer Affairs Division for implementing their portion of the recommendations is unknown at this time.**

- B. Duplication of Services--According to the November 13, 1995, Memorandum of Understanding provided by the Attorney General's Office, the Consumer Affairs Division shares responsibility for enforcing consumer protection and investigating consumer complaints with the Attorney General's Office. The Attorney General's Office is responsible for processing cases for telephone solicitors pursuant to Chapter 599B of the Nevada Revised Statutes. The Consumer Affairs Division is responsible for all other cases initiated by consumers, and has primary accountability for consumer education services within the State. The Attorney General's Office determines when cases referred by the Consumer Affairs Division should be litigated in a civil lawsuit, criminally prosecuted, settled through assurance of discontinuance, or otherwise disposed. **The Committee may wish to ask the Division to discuss any changes in the relationship with the Attorney General's Office. Further clarification of roles is necessary to ensure the agencies complement each other in the performance of consumer protection and enforcement duties.**

- IX. LCB Audit--A Legislative Audit was completed on the Consumer Affairs Division in March of 1995 and released to the Legislature on April 3, 1995. At that time, the Division accepted all seven of the audit recommendations. The recommendations are outlined below:

- ▶ Adopt regulations for deceptive trade hearings
- ▶ Develop protocols for working with Attorney General's Office
- ▶ Develop management controls for reliable data
- ▶ Define, document, and record restitution or relief obtained for consumers
- ▶ Develop and maintain up-to-date inventory records
- ▶ Separate the duties over the revenue collection function
- ▶ Deposit all money in accordance with statutory requirements

The Division will present their six-month status report to the Audit Subcommittee on June 19, 1996. At this time, the only recommendation not "fully implemented" is the development of a corrective plan for hearing regulations. Recognizing that internal procedures are separate from "due process" rights, the Committee may wish to ask the Division about estimating the completion date for the hearing regulations. The

Committee may wish to ask the agency to discuss how the Division is operating more efficiently as a result of implementing the recommendations of the Legislative Audit.

- X. **FY 98/99 Base Budget**--Actual expenditures for FY 96 (the expenditures incurred from July 1, 1995 until June 30, 1996) will become the base budget for both years of the 1997-1999 biennium under the current rules. According to the FY 96 expenditure data available at this time, the following categories should be adjusted to provide accuracy in representing the base budget:

| Category | Description | Adjustment |
|-------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Category 01 | Personnel Services | Division will budget for full complement of staff; reclassification of Program Assistant to Investigator will be annualized on the Payroll Worksheet; exclude FY 96 expenses for overtime from base |
| Category 02 | Out of State Travel | recommend at FY 96 levels |
| Category 03 | In-state Travel | recommend review of additional increment for investigations in Reno and rural Nevada |
| Category 04 | Operating Expense | potential transfer of expense from Deceptive Trade Category, adjust one-time expenses for window repair and copier rental |
| Category 05 | Equipment | delete all FY 96 expenses from base |
| Category 11 | Special Investigations ("Sting Operations") | recommend at FY 96 levels |
| Category 12 | Deceptive Trade | potential transfer of allocated costs to the Operating Expense Category, adjust from base the one-time expenses for badges, coveralls, and gloves for auto repair class |
| Category 26 | Data Processing | delete all FY 96 expenses from base |
| Category 80 | Business and Industry Allocation | recommend at FY 96 levels with documentation narrative and calculations |

As part of the budget process, the Consumer Affairs Division will refine the FY 96 actuals prior to submitting the budget for the upcoming biennium, and the Budget Division will reconcile actuals after the formal close of the fiscal year. The Division is expected to justify all revenue and expense adjustments to the base year, including adjustments related the allocation of expenses, and any changes in accounting procedures.

**FUNDAMENTAL
REVIEW OF BASE BUDGET**

**CHILDREN, YOUTH AND
FAMILY ADMINISTRATION
101-3145**

**DEPARTMENT OF
HUMAN RESOURCES**

JUNE 24, 1996

FUNDAMENTAL REVIEW OF BASE BUDGET

101-3145

CHILDREN, YOUTH AND FAMILY ADMINISTRATION

The 1991-93 Executive Budget recommended and the 1991 Legislature approved the creation of the new Division of Child and Family Services. Through the passage of Senate Bill 611 (Chapter 643, Statutes of Nevada, 1991) the Youth Services Division was abolished and the creation of the new Division of Child and Family Services was authorized. The legislation allowed for the immediate transfer to the Division of the Children's Resources Bureau from the Office of the Director of the Department of Human Resources, all services and programs of the current Youth Services Division and Case Management and related Family Support Services from the Welfare Division. The remaining Child and Family Service programs from both the Welfare Division and the Division of Mental Hygiene and Mental Retardation, including both the Northern and Southern Nevada Child and Adolescent Programs, were administratively transferred into the new Division over the course of the 1991-93 biennium. Additionally, the 1993 Legislature passed Senate Bill 542 (Chapter 640, Statutes of Nevada, 1993) which provided for the permanent statutory transfer of powers and responsibilities to the Division of Child and Family Services from other divisions within the Department of Human Resources.

The Division provides a wide array of services to children and adolescents and is currently organized into four major functional areas: Treatment Services; Family Support Services; Corrections; and Licensing. Treatment Services provides developmental and mental health services to children ages birth to six years, as well as assessment and mental health services to school-age children and adolescents experiencing emotional and behavioral problems. Family Support Services provides crisis intervention, assessment and case management services to families with children at risk of abuse or neglect. Corrections provides residential care and treatment of delinquent youth, administers programs for the after care of youth released from state institutions and assists in the development of programs for the diversion of juveniles out of the judicial system. Licensing has the responsibility for licensing, monitoring, and providing technical assistance to child care facilities not licensed by local entities which care for five or more children and is also charged with monitoring and licensing foster and group homes.

Children, Youth and Family Administration - 101-3145

This account is the central administrative account of the Division and contains the Administrator, two of the Division's Deputy Administrators (there are a total of three), accounting and personnel staff, as well as the Case Worker staff for the Child Welfare, Foster Care and Adoption programs.

- I. **Mission Statement**--Prior to the creation of the Committee for the Fundamental Review of the Base Budgets of State Agencies, the Division did not have a mission statement for this budget account. The Division was asked to consider developing a mission statement, which follows: "The purpose of the Children, Youth and Family Administration budget account is to fund the provision of child and family assessment, family and child case management, and

family preservation duties assigned to the Division by state and federal statute, and carried out in cooperation with the courts and county government.” However, the Division also submitted the following note: “Budget Account 101-3145, as currently constructed, works against the integration of services efforts within the Division. It separates the assessment, case management and preservation functions of Child Welfare from the same functions in Youth Corrections and Children’s Mental Health. It also includes most of the administrative costs of the Division although the Administrative Services within this budget supports Youth Corrections and Children’s Mental Health services as well.”

The Division’s Administrator has indicated his desire to convert this budget to a “pure” administrative account by removing program staff and creating other budget accounts on a geographical or regional basis. As a change of this nature would affect the base budget and although agency budget requests for the 1997-99 biennium are not due until August 15, 1996, **the Committee may wish to ask the Administrator to briefly explain his thoughts on restructuring this account and creating additional regional budget accounts.**

- II. **Goals**--The Division was asked to consider refining existing goals for the Division (long term and short term) as well as creating specific goals for this administrative budget account. These goals are included as Appendix A and are separated by long term and short term goals. The identified goals are admirable and progressive in nature and demonstrate the desire of the Administrator to improve and increase services to children and families while stabilizing or reducing the costs of those services.

However, the goals are primarily Division-wide and are not specifically representative of the Administrative budget account. **The Committee may wish to recommend that the Division develop goals for this account, dependent upon the outcome of the planned reorganization of the Division into geographically defined service delivery areas. If goals are developed for this account, the natural progression leads to the identification of objectives to meet those goals and the creation of measurement indicators to evaluate performance in reaching those objectives.**

- III. **Relevant NRS and Federal Regulations**--The major functions performed by the staff contained in this budget account of Family Support Services (Child Welfare Services, Centralized Intake and Assessments, and Family Preservation Services), Purchased Placements and Centralized Accounting, and supported by relevant NRS and federal regulations identified by the Division are consistent with the Division’s mission statement and goals. (See Appendix B for a listing and brief explanation of the primary NRS and applicable federal regulations which guide the Division’s major functions).

Additionally, NRS 232.400 defines the purposes of the Division of Child and Family Services. This statute is referred to by the Division Administrator as the Division’s legislative charter for organizing and delivering services. In a discussion of the Division’s long term goals (Appendix A) the Administrator has commented that the Division’s spending

does not follow the legislative charter. Specifically, that more than 60 percent of the Division's resources are directed toward institutional or contract placements versus toward strengthening parental and community capacity to maintain children within their own home. The Division's number one long term goal is to reverse this trend.

It would not appear that any major revisions to existing statutes are necessary; however, the Committee may wish to ask representatives of the Division for their comments on this item.

- IV. **Measurement Indicators**--The Division has submitted measurement indicators for this budget (Appendix C). The indicators are divided into three areas and include Child Protection, Family Preservation and Centralized Intake and Special Assessments. Appendix C also includes comments provided by the Division on the actual indicators, compared to the projected indicators. Indicator 1A, Child Protection appears to be an outcome measure in that it measures the effectiveness of Child Protective Services by monitoring the recurrence of abuse, neglect or exploitation within one year of the initial report. The projected figure of 17 percent was included in the 1995-97 Executive Budget with the actual average for the first two quarters of FY 1996 showing a recidivism rate of 14 percent, or less than initially estimated. Indicator 1B is primarily a workload indicator in that it displays the average monthly caseload for investigations per staff member. The indicator does not specifically measure performance of staff.

Indicator 2B measures the effectiveness of Family Preservation Services by tracking the percentage of children who do not require Foster Care Services for one year after the termination of Family Preservation Services. The projected figure for this indicator is 88 percent while the year-to-date actual figure is 73 percent. The Division indicates this is a result of procedural changes in the collection of data which were instituted to ensure greater accuracy.

Indicator 3 is a workload or input measure in that it measures the number or percentage of children coming into care who receive assessments. No indicators exist which measure quality or effectiveness of the assessment, i.e., treatment suggested, treatment provided and improvements made by a client. No indicator exists to measure timeliness, i.e., how long before an assessment is performed for children coming into care.

The Division was asked to consider revising the measurement indicators during the Fundamental Review of Base Budgets' process. While the Division responded that existing measurement indicators are appropriate, **it would appear that some refinement or expansion of indicators would be helpful.** Otherwise, the existing indicators do appear relevant to the Division's mission statement and goals—to protect children and preserve families.

The Division is currently participating in measurement indicator training sessions coordinated by the Budget Division which should be utilized to refine or expand upon existing indicators. **The committee may wish to recommend that the Division continue to participate in those training sessions.** Additionally, while the Division provided actual indicators for the first two quarters of FY 1996, they indicated that third quarter indicators (January through March 1996) were unavailable at this time. With two months having passed since the end of the third quarter, **the Committee may wish to ask why those indicators were not available. Is this a data collection issue? Will the Statewide Automated Child Welfare Information System (SACWIS) project address data necessary to measure performance?**

- V. **Agency Regulations**--Several existing statutes authorize the Division to promulgate regulations. NRS 424.020 authorizes the Division to establish reasonable minimum standards for Family Foster and Group Foster Homes and to prescribe rules for their regulation (NAC 424). Additionally, NRS 432B.190 authorizes the Division to adopt regulations establishing standards for protective services, and NRS 127.230 authorizes the Division to establish minimum standards for child placing agencies and to adopt regulations concerning the operation of child placing agencies and to establish procedures to place children for adoption. The Division has recently conducted public hearings (May 1996) regarding the adoption, amendment or repeal of these regulations.
- VI. **Revenues**--The Children, Youth and Family Administration adjusted budget is currently comprised of 22 separate revenue sources in FY 1996 totaling \$15,402,871 in revenue authority. Of this amount, \$3,385,989 or 22 percent is general fund with the remaining \$12,016,882 (78 percent) made up of other funds (federal grants, fees, rental income, individuals support and county participation funds).

The Committee should note several revenue sources either have or will experience adjustments that will affect the revenue mix in the 1997-99 biennium. The most critical is the reduction to Title XX Social Services Block Grant funds. Congressional budget action has reduced Nevada's Title XX authorization by 15 percent. In FY 1996, the base budget year, Title XX revenue is authorized at \$3,972,218. A 15 percent reduction to this amount is approximately \$600,000. **The Committee may wish to ask the agency what plans they have for implementing the reduction, both in the current 1995-97 biennium and in the coming 1997-99 biennium?**

Additionally, this account is authorized to collect \$180,162 in rental income in FY 1996. Year-to-date, only \$15,840 has been collected. The Volunteers of America who currently lease the Southern Nevada Children's Home from the Division are in arrears \$139,172 through May 1996. The Division has also recently signed a new five-year lease agreement with the city of Carson for space on the grounds of the Northern Nevada Children's Home. The new lease, which took effect upon IFC approval at the May 14, 1996, meeting will be

revenue neutral. While the Division will realize some savings in utility costs due to the new lease, the net result may be a slight loss of revenue.

The Division has also exceeded estimates of revenue collection for individuals support. These collections were added by the 1995 Legislature for the receipt of court ordered support payments for youth committed to state training center facilities and parole programs. The Legislature added \$62,500 in collections in FY 1996 and the Division has already collected \$132,650 year-to-date.

Revenues in this account will need to be reviewed closely, once Fiscal Year 1996 closes, for their continuance and adjustment as the base year's figures for the 1997-99 biennium.

VII. **Expenditures**--Base budget expenditure line items were reviewed to test for reasonableness, appropriateness and relation to the Administration budget's mission.

Personnel Services -- Salary costs are by far, the largest expenditure item in this budget account. A review of the FY 1996 Legislatively Approved budget (prior to any adjustments) reveals that approximately 77 percent of the expenditures in this account are dedicated to personnel services. If flow through grant funds are removed, as well as the assessment for the statewide cost allocation plan, the amount dedicated to personnel services equals approximately 82 percent of total expenditures.

This account currently contains 271.10 FTE Legislatively authorized positions for FY 1996, which includes 26 new positions approved by the 1995 Legislature. Of this total, 18 positions are currently vacant as of May 24, 1996, with a total of four positions never having been filled. **The Committee should note that any positions that have never been filled in the base year (FY 1996) will require rejustification to be included in the base budget for the 1997-99 biennium.**

The staff in this account are deployed over a total of twelve cities and towns statewide, including Carson City, Elko, Ely, Fallon, Hawthorne, Lovelock, Tonopah, Battle Mountain, Winnemucca, Yerington, Las Vegas and Reno. Services provided by program staff at various office locations include Child Protective Services, Foster Care, Adoption, Licensing, Centralized Intake and Assessment, Family Preservation and Reunification, Foster Parent Recruitment and Training, Purchased Placement Services and Intensive Case Management Services for children returning from out-of-state care or at-risk of out-of-state care. It should be noted that not all services are provided at all office locations.

The Division was asked to provide an up-to-date organizational chart for this budget showing the distribution of all FTE staff members by geographic location and functional or program area. Although the Division provided a listing of statewide offices and the various services provided by program staff at those locations, **a chart or listing of the distribution of all FTE staff by geographic area was not provided.**

As noted earlier, the 1995 Legislature approved a total of 26 new positions for this account in FY 1996 with an additional three new positions approved for FY 1997. While several of those new positions are discussed in more detail later in this report in Section VIII, 1995 Maintenance or Enhancement Modules, **the Committee should note that new positions occupied or phased in for a portion of the base year will need to be annualized for the 1997-99 biennium.**

Staffing Ratios--The Division was asked to provide a breakdown of actual current staff-to-client ratios for all functional or program areas for services provided by staff in this budget account, including clerical services. Although no information was provided regarding clerical staff ratios, the Division's staff-to-client ratios for major functional areas was provided and is included as Appendix D. Information submitted for Assessments conducted by the Children's Resources Bureaus, Family Preservation Services and Intensive Clinical Case Management Services notes that caseloads are capped for these programs; therefore, the staffing standard and actual caseload size are identical. Further, the chart indicates that only projected caseload data is available for FY 1996 and that actual staffing represents positions that were authorized to begin in October 1995 and are not representative of an entire year.

Data provided for Substitute Care, Child Protective Services Investigations, Foster Home Licensing and Adoptions shows average caseload figures only through December 1995. Complete information for FY 1996 would be necessary to gain a clearer understanding of actual staff-to-client ratios in these functional areas. Additionally, the 1995 Legislature also approved three new Social Worker positions for FY 1997, which when filled, will have an impact on the caseload ratios. Presently, the chart suggests that these functions and their associated caseloads justify a total of 128 positions, while 108 actual positions exist.

As mentioned earlier in this report, the Division is committed to reversing the current trend of child placements from group and institutional care to more traditional Family Foster Care and maintaining children within their own families. In conjunction with this philosophy, the Division presented a budget plan to the March 20, 1996, IFC which proposed a gradual reduction of expenditures, based on the planned "migration of costs from group and residential care to foster care and community alternatives." The most recent preliminary information submitted by the Division to the Fiscal Analysis Division during May 1996, shows that the plan is beginning to show a shift in the placement of children from higher, more costly levels of care to lower, less costly levels of care.

In conclusion, until FY 1996 actual caseload data is available, as well as more historical data on the Division's planned shift in placements to foster care and community alternatives, it is difficult to evaluate the Division's caseload and staffing standard information. It is also too early to expect reliable projections on caseload figures for the 1997-99 biennium for the various program areas identified. This information will need to be reviewed in detail during

the adjusted base budget process conducted with the Budget Division as well as during the 1997-99 biennial budget process.

In-state Travel--In FY 1995, in-state travel expenses totaled \$162,920. In FY 1996, \$192,643 was Legislatively approved and the agency anticipates expending up to its adjusted budget level of \$195,981. Travel expenses are incurred by program and administrative staff as shown below:

| <u>DISTRIBUTION</u> | <u>FY 1995 ACTUAL</u> | <u>FY 1996 PROJECTED</u> |
|-------------------------------|----------------------------------|-------------------------------------|
| Per Diem | \$22,385 | \$26,175 |
| Motor Pool | \$24,337 | \$25,182 |
| Public Transportation | \$117 | \$86 |
| Personal Vehicle | \$84,457 | \$87,285 |
| Commercial Air Transportation | <u>\$31,624</u> | <u>\$57,253</u> |
| | | |
| TOTAL | \$162,920 | \$195,981 |

The largest expenditure in this category is for personal vehicle mileage reimbursement. The agency currently utilizes a combination of agency-owned and Motor Pool vehicles. When agency-owned vehicles are not available, personal vehicles are used. Examples include Social Workers who make court appearances, home visits and Child Protective Service investigations in rural Nevada. Administrative staff use personal vehicles for travel between duty stations and meetings, deliveries of documents, information, etc.

The agency indicates that personal mileage costs are up due to nine agency-owned vehicles being out of service and too costly to repair. The 1995 Legislature approved Assembly Bill 218 which included funding for 27 new vehicles to replace agency-owned vehicles that had high mileage, high repair costs, or were otherwise unsafe. The Division has estimated a July 1, 1996, delivery date for the replacement vehicles and agrees that a reduction in personal vehicle expense will be realized once all 27 new vehicles are received and put in service. **Adjustments may be required in the base budget to reduce personal vehicle mileage and also possibly in the operating category, in vehicle operating costs to accurately reflect anticipated operating costs for agency-owned vehicles in the 1997-99 biennium.** The Division has also indicated that no agency-owned vehicles in this budget account are authorized for home storage. All vehicles are returned to office locations during non-working hours.

Operating--The two largest expenditure items in the operating category are non-state owned office space rental costs and telephone costs. In FY 1995, the agency expended \$273,550 for non-state rent and \$137,991 for telephone costs. The total of these two items, \$411,541 represents 49 percent of total operating expenditures of \$832,524. The FY 1996 Legislatively approved budget is similar, with \$358,980 approved for non-state rent and \$146,462 approved for telephone expenses. The total of \$505,442 represents 55 percent of the total authority for operating of \$912,956.

Information provided by the Division, shows a total of 232 employees located in 13 (12 occupied and one in Pahrump projected) different cities or towns occupying a total of 47,085 square feet, ranging in costs from 38¢ per square foot to \$1.10 per square foot. **The Committee should note that adjustments may be required in the base budget to annualize costs for office space that has not been occupied for an entire year.**

The Division indicated that 45 cellular phones are utilized by staff in this budget account. (Assembly Bill 218, a one-shot appropriation approved by the 1995 Legislature, provided for the purchase of 12 cellular phones). Although a breakdown of usage costs for cellular phones was requested, no detail was provided. However, the Division stated that costs for 44 of the 45 cellular phones are paid from the Child Abuse and Neglect budget account (101 - 3271). Additionally, the Division did indicate that they are developing a policy on cellular phone usage. Until the Division's policy is finalized, the Division will use the state's policy on personal usage of cellular phones. **The Committee may wish to ask the agency if any mechanism is in place to monitor cellular phone usage for unauthorized use. Additionally, is the distribution and use of cellular phones limited to higher level administrative staff and program staff who must visit residences in isolated areas of rural Nevada?**

Contract Services--Actual expenditures for contract services in FY 1995 totaled \$56,839 with \$52,128 budgeted for FY 1996. Year-to-date expenditures as of the May 31, 1996, F0 3.0 total \$27,709. The Division was asked to identify any one-time non-recurring expenditures that would result in adjustments to the base amount in FY 1996. While the Division responded that FY 1996 contracts will continue to FY 1997 and beyond, a more detailed review of these expenditures and other expenditures within the operating category will be necessary during the adjusted base budget review phase to be performed by the Budget Division and Fiscal Analysis Division. As an example, the operating budget has incurred costs of \$851 in employee moving expenses. This will be examined and if it represents a one-time expense, it will be deducted from the base expenses for FY 1996.

Information Services-Statewide Automated Child Welfare Information System (category 13)--The 1995 Legislature authorized \$562,500 in FY 1996 and \$1,500,000 in FY 1997 in Federal Title IV-E Child Welfare revenue for the development of the Statewide Automated Child Welfare Information System (SACWIS). Also approved was Assembly Bill 255, a one-shot appropriation, which provided \$1,687,500 as the general fund portion

of the project's estimated cost for the 1995-97 biennium. The total project amount budgeted for the 1995-97 biennium is \$3,750,000. The Federal IV-E revenue has been removed from this budget account and together with the general fund portion has been placed in a separate one-shot budget account (101-3144) to isolate this project and all other one-shot appropriations in the Division. **Costs experienced in the development of the SACWIS project are one time in nature and will not become part of the base expenditures for FY 1996. It can be assumed that the Division's budget request for the 1997-99 biennium will include funding requests for the completion, implementation and ongoing operational costs of the system.**

The Division completed Phase I of the SACWIS project which was business process re-engineering in June 1995. They are currently in Phase II which is defined as cost benefit analysis, a feasibility study and preparation of a request for proposals or request for information on Phase III. Early equipment acquisition, system design and implementation are defined as Phase III. The Division has indicated they may be approaching the IFC on June 25, 1996, to request approval of additional Federal Title IV-E revenue authority of approximately \$2 million to proceed with early equipment acquisition. The Division has also renamed the project from SACWIS to UNITY - Unified Nevada Information Technology for Youth and wants to create a separate budget account solely for this project.

Sexual Offender Evaluations (category 23)--Expenditures in this category provide for contract evaluations of juvenile sexual offenders which result in treatment recommendations. Assessments for youth in northern and rural Nevada are completed by contractors while most southern Nevada assessments are provided by DCFS staff. A .50 FTE DCFS position in southern Nevada is dedicated to providing assessments. In FY 1995, 93 sexual offender evaluations were completed statewide with \$35,332 being expended for contract services. In FY 1996, the Division estimates that a total of 90 evaluations will be completed with \$25,604 estimated to be expended on contract evaluations.

Utilities (category 59)--This category may require an adjustment to FY 1996 base budget amounts due to a new lease agreement between the Division and the City of Carson for the Boys and Girls Club located on the grounds of the Northern Nevada Children's Home. The new lease requires the City of Carson to assume a greater share of water and sewer costs than in past years. Specific adjustments are not currently known, but will be considered in the adjusted base budget process.

- VIII. **1995 Maintenance and Enhancements**--The 1995 Legislature approved several maintenance and enhancement decision units which added new staff to this budget account. The Division was asked to comment on the status of implementation for these decision units and if new staff members were having the anticipated impact they were proposed to achieve. The Division's response is included as Appendix E. While the Division's response provides statistics on the year-to-date achievements of staff in these decision units, more information is needed to draw a comparison to the program output or results before the new staff were

hired. Further information and analysis will be required to create a before and after comparison impact of the new staff members. **Generally speaking, salary and support costs for these decision units will need to be annualized and will become part of the base budget for the 1997-99 biennium.**

M-207 provided two Mental Health Counselors to monitor out-of-home placements and provide clinical review for the appropriate level of care. One Mental Health Counselor position has been filled in southern Nevada, while the other position has been assigned to rural Nevada and is currently being recruited for.

M-209 provided two Social Worker Program Specialists for the Foster Parent Training and Recruitment program. Both positions are filled (February 1996) with one position assigned to southern Nevada and one position assigned to rural Nevada.

E-404 provided two Social Worker IIIs and eight Clinical Social Workers to increase Case Management Services for out-of-state placements and in-state placements in institutional and residential care. The positions were projected to increase the likelihood that children would be returned from out-of-state facilities and that those in-state would be maintained in-state. The Division indicates that eight permanent staff have been hired. Of the eight staff, one provides program supervision while the other seven staff provide direct services. **No mention is made of the status of the other two new staff members.**

M-210 provided funding for one Social Worker and a .50 FTE clerical position for the establishment of a Battle Mountain office. The Social Worker has been hired, but the clerical position has not been filled. Office space has been secured for the Social Worker position.

M-211 provided funding for one Social Worker and a .50 FTE clerical position for the establishment of a Pahrump office. The Social Worker position has been hired but the clerical position has not been filled. Office space has not been secured in Pahrump.

- IX. **Alternatives**--The Division was asked to comment on any alternatives for providing services which might increase the effectiveness of the major functions in this budget account. Or, if changes to NRS or regulations would improve the effectiveness of the Division in providing services. Other than the Division's identified long term and short term goals contained in Appendix A, no additional information was provided.

**FUNDAMENTAL
REVIEW OF BASE BUDGET**

**YOUTH COMMUNITY SERVICES
(CHILD WELFARE)
101-3229**

**DEPARTMENT OF
HUMAN RESOURCES**

JUNE 24, 1996

FUNDAMENTAL REVIEW OF BASE BUDGET

101-3229

YOUTH COMMUNITY SERVICES (CHILD WELFARE)

This budget account primarily contains funding for foster care and adoption subsidy payments, youth parole and mental health placements and the purchase of residential and medical services for children in the Division's care. Program staff for Child Welfare, Foster Care and Adoption programs are contained in the Division's Administrative budget account, while program staff for Youth Corrections and Children's Mental Health are contained in other budgets within the Division.

- I. **Mission Statement**--As noted in the Administration budget account, the Division was asked to consider developing a mission statement for this account. Although no mission statement was submitted, The 1995-97 Executive Budget, within the program description for this account, stated "the mission of Youth Community Services is to provide the appropriate level of out-of-home placement treatment to abused, neglected, and/or emotionally disturbed youth through services or contract community placements. Since this budget funds the purchase of placements, the Division may wish to consider modifying the mission statement to include the term "funds the provision of the appropriate level of out-of-home placement treatment" etc. **The Committee may wish to recommend that the Division continue their participation in the performance indicator training coordinated by the Budget Division which includes the task of writing or refining mission statements for agency budget accounts.**
- II. **Goals**--The Division was asked to identify long term and short term goals for this budget account. Several of the goals submitted for the Division, as a whole, are directly related to the primary function of this budget account - to fund placement services for children. Those goals are included as Appendix A. Goals that address this budget are: Long term goal #2 - Nevada will reduce the per capita number of children placed outside their home to the national median; Short term goal #2 - reduce spending in group home care and residential treatment; Short term goal #4 - increase and retain family foster care homes; and Short term goal #5 - return children in DCFS custody from out-of-state placements. The identified goals are consistent with the existing mission statement and are realistic and hopefully achievable.
- III. **Relevant NRS and Federal Regulations**--The Division is required by statute to provide maintenance and special services to children and adolescents who are placed in its custody. Child Welfare Services include Child Protective Services, Substitute Care and Adoptions. DCFS provides Child Protective Services in Communities less than 100,000 (all counties except Clark and Washoe) and is responsible for planning, coordinating and evaluating all Child Protective Services provided throughout the state. Youth Parole and Mental Health Services contained in this budget include out-of-home placement and support services. As this budget contains placement funding for the activities carried out by program staff in the

Administration budget, the relevant NRS and federal regulations referenced in the Administration budget report are duplicated here as Appendix B.

- IV. **Measurement Indicators**--The Division has submitted measurement indicators for this budget account which are included as Appendix C. The current indicators, which were also included in The 1995-97 Executive Budget, are divided into three areas: Substitute Care; Adoption; and Purchased Placement Services. The Division has also provided an assessment of actual indicators for the first two quarters of FY 1996 compared to projected indicators. This information is similarly included in Appendix C.

Some samples of the indicators include Indicator 1A for Substitute Care which appears to be an outcome measure in that it seeks to measure the percentage of children in custody for 18 months or longer who are residing with a non-permanent, non-relative placement. This indicator is derived from the input indicators which count total children in custody versus those in custody 18 months or longer. Indicator 2B for Adoption is an output measure that displays the number of minority children who are free and cleared for adoption and awaiting an adoptive placement versus the average number in care.

The Division was asked to consider revising the measurement indicators for the Fundamental Review of Base Budgets process. While the Division responded that existing measurement indicators were appropriate, **it would appear that some refinement or expansion of indicators would be helpful.** Additionally, while the Division provided actual indicators for the first two quarters of FY 1996, they indicated that third quarter statistics (January through March 1996) were unavailable at this time. With two months having passed since the end of the third quarter, **the Committee may wish to ask why those indicators were not available. Is this a data collection issue? Will the Statewide Automated Child Welfare Information System (SACWIS) project address data necessary to measure performance?**

The Committee may also wish to recommend that the Division consider shifting certain indicators from this budget to the Administration budget. This budget contains placement funding. However, the majority of indicators in this account seek to measure staff and program performance of the functional areas contained in the Administration account. If certain indicators are shifted from this account to the Administrative account, new indicators that measure economy should be developed for this budget. Indicators such as the average adoption subsidy payment, the number of adoption subsidies both ongoing and new, the average substitute care payment, etc. could be considered for this account. Similarly no performance indicators exist which specifically measure the Youth Parole and Mental Health Placement programs. **The Committee may wish to recommend that the Division develop indicators for those programs also.**

(It should also be noted that in certain areas, the statistics displayed on the measurement indicator sheets do not match the narrative assessment memorandums which accompany the

indicators). As noted earlier, the Division should continue to participate in the performance indicator training sessions coordinated by the Budget Division.

- V. **Agency Regulations**--As noted in the Division's Administrative budget account, several existing statutes authorized the Division to promulgate regulations. NRS 424.020 authorizes the Division to establish reasonable minimum standards for Family Foster Care and Group Homes and to prescribe rules for their regulation (NAC 424). Additionally, NRS 432B.190 authorizes the Division to adopt regulations establishing standards for protective services, and NRS 127.230 authorizes the Division to establish minimum standards for child placing agencies and to adopt regulations concerning the operation of child placing agencies and to establish procedures to place children for adoption. The Division has recently conducted public hearings (May 1996) regarding the adoption, amendment or repeal of these regulations.
- VI. **Revenues**--The Child Welfare adjusted budget is currently comprised of 11 separate revenue sources in FY 1996 totaling \$52,212,245 in revenue authority. Of this amount, \$14,994,961 or 28.7 percent is general fund appropriation with an additional \$7,136,381 in intergovernmental transfer account funds that should be considered as state funds. Together, these two amounts total \$22,131,342 or 42.4 percent of the total revenue. The remaining \$30,080,903 (57.6 percent) is made up of other funds including federal grants, post-adoption fees, room, board and transportation transfer from the Child Welfare Trust account, county participation and gifts and donations.

Members of the Committee will recall that the Division approached the IFC at the May 8, 1996, meeting to augment this budget by a total of \$10,188,038 in additional revenue to address the account's projected expenditure authority shortfall of \$8,511,786 for the remainder of FY 1996. Together with various revenue deaugmentations approved at that meeting of \$2,238,617, the budget was augmented by a net amount of \$7,949,421. Together with earlier expenditure authority augmentations approved by the IFC, of \$2,621,187, total expenditure authority adjustments for FY 1996 total \$11,132,973 (\$3,300,000 in Title IV-A emergency assistance revenue was also augmented in FY 1996, but is not counted here as it is flow-through funding to Clark and Washoe counties).

Based on these adjustments, the FY 1996 base budget has increased considerably from the total of \$38,049,537 that was Legislatively approved. There are a number of resulting issues that may affect the base budget and accompanying revenue that the Committee may wish to have the Division comment on:

1. **Total revenue and expenditure authority in the budget for FY 1996 may be overstated.** The Division's Administrator has developed a budget plan presented to the IFC at the March 20, 1996, meeting to address the budget shortfall in the 1995-97 biennium. The plan includes a gradual reduction of expenditures based on the planned "migration of costs from Group and Residential Care to Foster Care and Community

Alternatives." The Division has prepared a chart (Appendix D) which details estimated total expenditures for FY 1997. The total estimated expenditures of \$44,829,368 are \$7,382,877 less than estimates for FY 1996 (\$52,212,245). **If the Division's budget plan is successful and results in a reduction of expenditures, the base year should be adjusted accordingly.**

2. Early information provided by the Department of Human Resources and the Division in FY 1996 proposed that the estimated shortfall would be covered with approximately 50 percent state funds and 50 percent federal funds. However, the actual adjustments presented to and approved by the IFC on May 8, 1996, resulted in the mix of funding shifting to nearly 76 percent state funds. This was due, in part, to the deaugmentation of several federal and other revenue sources which were absorbed primarily by state funds. (The \$7,136,381 augmentation of intergovernmental transfer account funds, while not a general fund appropriation, is considered to be state funds). The following chart details the May 8, 1996, IFC augmentation.

**CHILD WELFARE FY 1996 PROJECTED SHORTFALL
AND REVENUE DISTRIBUTION**

| <u>Revenue Distribution</u> | <u>10-18-95 IFC</u> | <u>Percent</u> | <u>1-30-96 IFC</u> | <u>Percent</u> | <u>3-20-96 IFC</u> | <u>Percent</u> | <u>5-8-96 IFC</u> | <u>Percent</u> |
|-----------------------------|---------------------|----------------|--------------------|----------------|--------------------|----------------|-------------------|----------------|
| State | \$4,572,924 | 53.2 % | \$7,072,613 | 52.15% | Not Available | N/A | \$8,428,004 | 75.7% |
| Federal | \$4,023,581 | 46.8% | \$6,489,593 | 47.85% | Not Available | N/A | \$3,221,746 | 28.9% |
| Other* | \$0 | 0% | \$0 | 0% | Not Available | N/A | (\$516,777) | -4.6% |
| Shortfall** | \$8,596,505 | 100% | \$13,562,206 | 100% | \$9,611,761 | N/A | \$11,132,973 | 100% |

* Other funds include: Adoption Fees; Room, Board & Transportation transfer from the Child Welfare Trust Account; and transfer from the Reserve Category.

** The total shortfall amounts include: \$2,521,187 augmentation (12/15/95 IFC) & \$100,000 augmentation (3/20/96 IFC).

The Committee may wish to ask the Division if they propose to follow this state, federal and other revenue distribution as part of the base budget? Will the Division propose that the intergovernmental transfer funds be replaced with general fund? Or, can additional non-state funds be identified to more closely represent earlier 50 percent state, 50 percent federal estimates. For example, is it possible to earn increased federal Medicaid funds?

3. How does the Division propose to replace Title XX Social Services Block Grant funds that have been reduced by the federal government? The Congressional budget agreement reached on April 25, 1996, reduces Nevada's Title XX authorization by

15 percent. In FY 1996, the base budget year, Title XX revenue is authorized at \$3,617,048. This amount was augmented by \$830,000 at the May IFC for a total of \$4,447,048. A 15 percent reduction to this amount is approximately \$667,000. **The Committee may wish to ask the Division how this reduction will be implemented in the current 1995-97 biennium and how this revenue will be replaced in the 1997-99 biennium?**

4. A portion of this budget's revenue comes as a transfer from the Child Welfare Trust Account (645-3242). The transfer out of the Trust Account is shown as an expenditure in Payments to B/A 3229 (category 13) and as a revenue in this budget, Room, Board and Transportation Transfer. A review of the latest FO 3.0 Report dated May 31, 1996, shows that \$801,718 has been expended from the Trust Account, but only \$632,587 has been received as a revenue in this account. The transfer out and revenue received should match, but there is a \$169,131 difference. **The Committee may wish to have the agency explain the discrepancy. Are expenditures in this account being reduced and charged to the Trust Account? This discrepancy may need to be explained in detail and possibly adjusted during the adjusted base budget process.**

VII. There are a number of expenditure issues that may affect the base budget. The Committee may wish to have the Division comment on the following:

1. The largest expenditure category in this budget is Title XIX Medical Expenses. The category pays for medical expenses for Medicaid eligible children and also pays for the majority of children in out-of-state inpatient psychiatric facilities. Projected expenses for FY 1996 total \$20,527,946, while actual expenses were \$13.7 million in FY 1994 and \$20.1 million in FY 1995. These amounts also included costs picked up by the Welfare Division's Medicaid budget after this budget account exhausted expenditure authority.

A growing portion of these expenses can be attributed to children who are termed aid code 61 children or sometimes referred to as county custody children. The children, who are eligible for Medicaid, are not in the Division's custody, but their care, primarily in out-of-state psychiatric facilities and residential treatment centers is paid from this expenditure category. Estimates provided by the Department of Human Resources project costs of approximately \$5 million for this group in FY 1996. Because the children are not in the Division of Child and Family Services' custody, they are not case managed and the costs are, to a large degree, outside of DCFS' control. **As the children are not in DCFS custody, the Committee may wish to have the Division consider adjusting the base budget to remove costs for this group from FY 1996 and have the Welfare Division assume oversight and their costs in the 1997-99 biennium.**

2. As noted in the section on revenues, the Division is following a budget plan to gradually reduce expenditures and shift care of children from group-care placements to more traditional levels of family foster care. **Dependent on several factors, adjustments to the base budget may be necessary:**
 - A. If the budget plan yields the anticipated results, total expenditures in the base year may be overstated and may need to be reduced for the 1997-99 biennium.
 - B. Costs may need to be adjusted and shifted between categories. For example, costs in Child Welfare (category 13) may need to be reduced and shifted to Substitute Foster Care (category 11).
 - C. If out-of-state placements continue to be returned to Nevada, overall costs for their care may need to be reduced in the base budget. Information provided by the Division at the May 8, 1996, IFC shows that the Division's average out-of-state placement census has decreased from 126 in the third quarter of FY 1995 to 71 in the third quarter of FY 1996.
 - D. As the agency budget submittal deadline and the 1997 Legislative Session draws closer, the Division will be more accurately able to project the number of children estimated to receive care in various levels. This updated information will assist in the development of maintenance decision units to address population and caseload growth.

VIII. **1995 Enhancements**--The 1995-97 Executive Budget recommended and the 1995 Legislature approved Decision Unit E-400, the "Foster Parent" package which provides \$774,450 for enhancements in Foster Care payment rates, clothing allowances, foster parent training and recruitment programs, liability insurance protection and respite care. The Division was asked to provide a status report on the impact of the additional funds for foster parent training and recruitment, liability insurance and respite care. That response is included as Appendix E. **Generally speaking, the actual expenditures for these enhancements will become part of the base budget for FY 1996.**

IX. **Alternatives**--Alternatives being considered or currently implemented have been discussed earlier in this report and the Administration budget report. One issue that has not been discussed is privatization. The Kansas Department of Social and Rehabilitation Services has recently announced their decision to privatize Adoption, Family Preservation and Foster Care Services. Exhibit 1 which follows, is an excerpt from the National Governor's Association, April 1996 bulletin. **The Committee may wish to ask the Administrator for any comments regarding the potential to privatize Child Welfare Services in Nevada.**