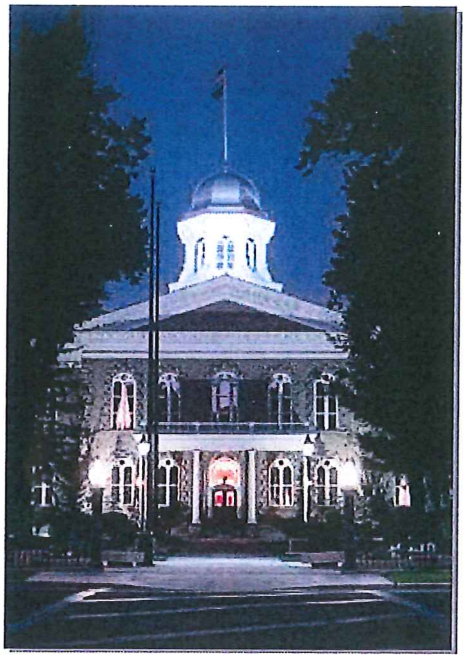


State of Nevada
Governor's Finance Office
Division of Internal Audits

Audit Report

Office of the State Controller
State Debt Collection

Report No. 16-05
June 2016

EXECUTIVE SUMMARY
Office of the State Controller
State Debt Collection

Objective: Can the Office of the State Controller Increase Collections on Debts?

Automating the debt assignment process makes it easier for agencies to assign debts to the Controller's office (office) and for the office to assign debts to collection agencies. Assigning debts is a manual, difficult, and time consuming process that involves entering data into as many as 70 fields on an Excel spreadsheet for each debt. As a result of the time consuming and difficult process, not all past due debts have been assigned to the office and debts that have been assigned are old and less collectible. Additionally, using Excel spreadsheets to assign debts to collection agencies is also difficult and time consuming, which has inhibited the office from assigning debts timely. We estimate automating the debt assignment process would result in a one-time increase in collections of approximately $30 million and annual increases of approximately $5.3 million.

Automating the debt offset process makes it easier for the office to identify vendors who owe debts and offset payments to vendors by the amounts owed. Debt offset is a manual, difficult, and time consuming process, which has deterred office staff from consistently using it. We estimate automating the process would increase collections by $82,000 annually.

Automating the process for reviewing state licensee lists for anyone owing debt to the state will enhance the office's ability to prevent past due debtors from renewing state issued licenses. The enabling statute passed in 2013 and has not been implemented.

Requiring agencies to obtain waivers to collect their debts will enable the office to ensure those agencies have demonstrated an effective debt collection process. This will have a positive impact on state debt collection. Waivers have not been issued to some agencies collecting their debt.

Resolving legal issues to allow collection of overpaid wages will increase collections. The Controller is authorized by statute to deduct overpaid wages from employee paychecks. However, the state payroll office does not assign debts resulting from overpaid wages to the Controller due to unresolved legal issues.

Writing off uncollectable debts will remove debts that will most likely never be collected from the state's accounts receivable balance and allow the office to more accurately measure the effectiveness of debt collection activities. The last write-off occurred in May 2012.

Objective: Should The State Collection Agent Responsibilities Be Transferred?

Transferring the state collection agent's responsibilities to the Governor's Finance Office would enhance collection efforts. In 2009, legislation passed identifying the Controller as the state's collection agent making it mandatory for agencies to assign past due debts to the office. In 2013, legislation passed requiring licensing agencies to submit lists of licensees to the office. As of June 30, 2015, $225 million in past due debts were not assigned to the office and no lists of licensees had been submitted. The office expressed concerns regarding the Controller's ability to require agencies to comply with debt collection statutes. The Governor's Finance Office falls under the authority of the Governor. The Governor appoints most agency directors and approves their budget requests, giving the Governor greater ability to enforce debt collection statutes.

INTRODUCTION

At the request of the State Controller, we conducted an audit of the state's debt collection process. The Controller requested we focus on the efficiency and effectiveness of the state's debt collection process and determine the proper agency to handle the state's debt collections.

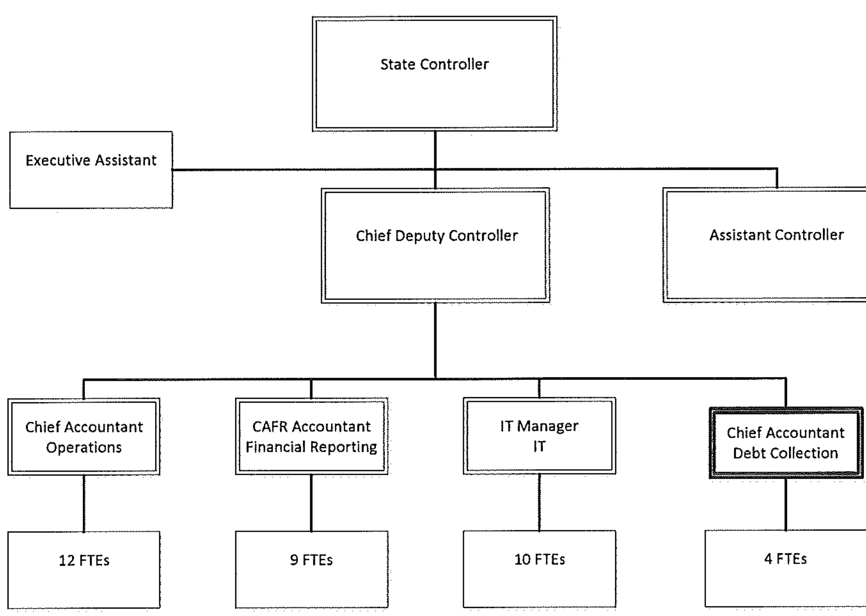
Office Role and Public Purpose

The Office of the State Controller (office) was established by the Nevada Constitution in 1864. The Controller is one of the six constitutional officers of the state and is elected for a term of 4 years. The Controller serves as the chief fiscal officer and is responsible for administering the state's accounting system, settling all claims against the state and collecting debts owed to the state. The authority of the office is set by the Nevada State Constitution and Nevada Revised Statute (NRS) 227. In addition, NRS 353C.195 requires the Controller to act as the collection agent for state agencies except for those agencies authorized to perform debt collections in their applicable statutes.

The office has four sections. Exhibit I shows the office's organizational structure.

Exhibit I

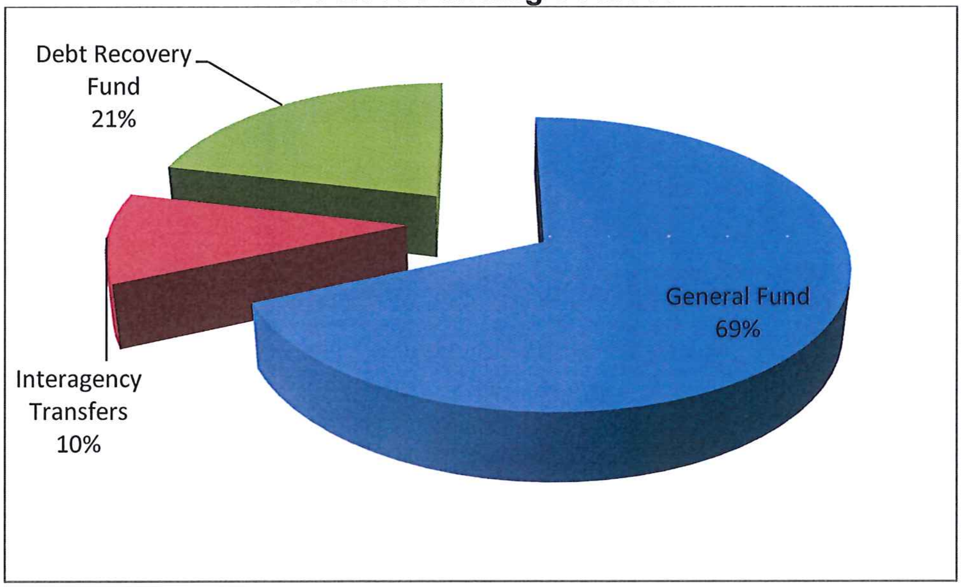
Office of the State Controller



The fiscal year 2016 budget was approximately $9.3 million with 43 authorized full time equivalent positions. See Exhibit II for funding sources.

Exhibit II

FY 2016 Funding Sources



Source: 2016 Legislatively Approved Budget
Debt Recovery Fund – Per statute, this fund can only be used for debt recovery activities.

Historical Challenges with Debt Collection

Challenges with the state's ability to effectively collect debt have existed for at least 20 years. A Legislative Council Bureau (LCB) audit released in 1997 brought to light issues regarding the state's debt collection efforts.

1997 LCB Audit Reveals State's Ineffective Debt Collection Effort

In 1997 LCB auditors released an audit of the management and collection of the state's accounts receivable. The state's accounts receivable includes revenues due the state, such as: taxes, fees, and services provided.

The audit concluded the state lacked a comprehensive system to effectively manage accounts receivable and maximize collections. Specific issues noted include:

- Lack of central state oversight;
- No effective process to ensure state does not make payments to businesses that owe the state money;
- Accounts receivable overstated as $50 million is no longer collectible and should be written off; and
- Some agencies lack statutory authority for aggressive collection actions.

The audit emphasized the significance of lacking effective collection efforts, noting when agencies fail to collect taxes and other debts, the state must either reduce services it provides or increase the burden on tax payers.

State Reacts to Audit Findings

In 1999 as reaction to the audit, Senate Bill 500 was passed, which provided agencies authorization for additional collection remedies such as liens, judgments, contracting with collection agencies, and ability to enter into installment basis payment agreements. Additionally, the bill authorized state agencies to request approval from the Board of Examiners to write-off debts deemed impossible or impractical to collect. The bill also authorized the Controller to offset any amount due to the state from a debtor against any amount owed to the debtor by the state.

In 2001, the state took additional action by passing Assembly Bill 314. The current Controller represented since 1999, only one state agency had contracted with a collection agency and receivables had risen from $82 million to $172 million. The bill allowed state agencies to turn debt over to the Controller to "maximize collection of revenues and minimize further losses". Turning debt over to the Controller was voluntary for agencies.

In 2009, the current Controller noted debt collections were still not working. Assembly Bill 87 was passed requiring the Controller to act as the collection agent for state agencies. Agencies are required to assign debts to the office no later than 60 days after the debt becomes past due, unless an alternative time is agreed upon between the agency and the Controller. Agencies authorized by specific statutes to collect a debt on behalf of or in trust for a person or entity are exempt from this requirement. Additionally, the Controller may grant waivers to non-exempt agencies with sufficient resources to collect debts.

Issues Noted by LCB Audit Still Exist

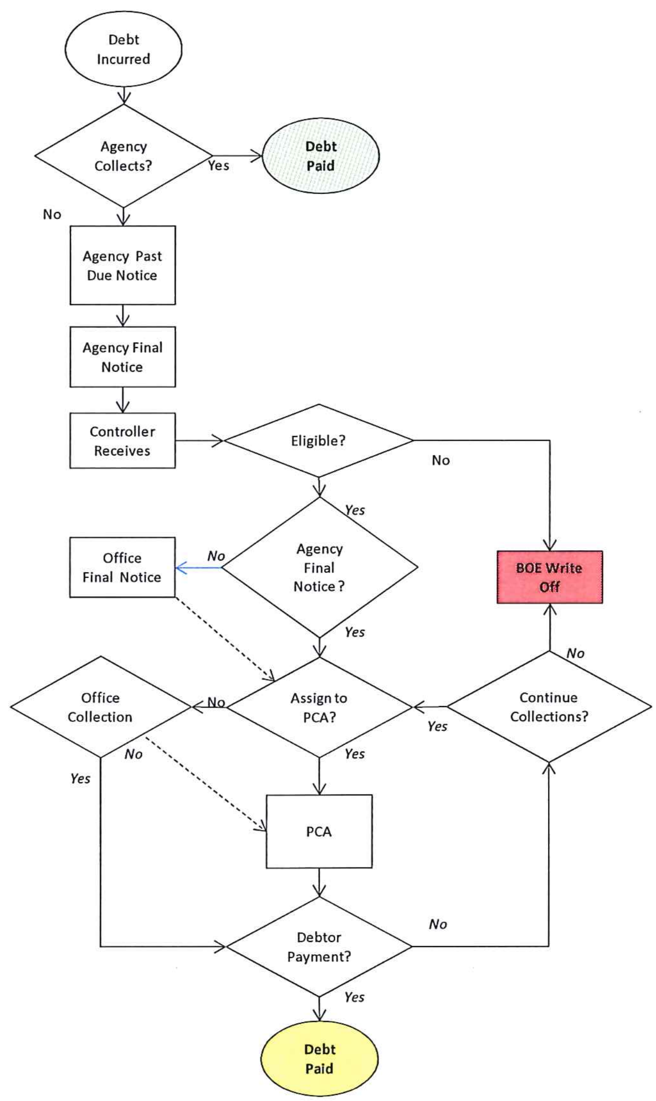
The audit's conclusion that the state lacked a comprehensive system to effectively manage accounts receivable and maximize collections remains valid today. Some of the issues noted in the 1997 LCB audit still exist. The current process for ensuring the state does not make payments to businesses that owe the state money is not working effectively. Businesses continue to receive payments from the state which are not offset by the amount of debt they owe. Additionally, accounts receivable contains voluminous uncollectible debts that should be written off.

Current Debt Collection Process

Agencies are required to submit a past due notice to debtors at 30 days and a final notice at 60 days. The final notice informs the debtor the debt is being assigned to the office for collection. Upon receiving debts, the office determines if the debt is eligible for collections and whether the agency sent a final notice.[1] If a final notice was sent, the office assigns eligible debts to a private collection agency (PCA). If no final notice was sent, the office sends the final notice and allows the debtor to pay before assigning the debt to the PCA. Debts deemed uncollectible are sent to the Board of Examiners (BOE) for write-off. See Exhibit III for the debt collection process.

Exhibit III

Debt Collection Process



[1] Not eligible if less than $25, deceased debtor, bankruptcy, and other considerations.

Agencies' Outstanding Debts

For fiscal year ended June 30, 2015, the amount of outstanding debts retained by state agencies is approximately $573 million. The corresponding age of debts is noted in Exhibit IV.

Exhibit IV

Fiscal Year ended June 30, 2015 Outstanding Debts (millions)

	Current	30-60 Days	61-90 Days	91-120 Days	Over 120 Days	Total
Total Debts	$175	$84	$33	$13	$268	$573
Debts Over 60 Days			$33	$13	$268	$314

Objectives and Scope

Our audit focused on the following objectives:

- ✓ Can the Office of the State Controller increase collection on debts?
- ✓ Should the state collection agent responsibilities be transferred?

We began the audit in June 2015. In the course of our work, we interviewed staff from the office along with staff from 21 other state agencies. See Appendix C.

We reviewed the office's collection data and collection documents from state agencies. In addition, we reviewed applicable Nevada Revised Statutes, Nevada Administrative Code, and State Administrative Manual. We also surveyed other states to gain an understanding of their collection processes and procedures. We concluded field work and testing in April 2016.

We performed our audit in accordance with the *Standards for the Professional Practice of Internal Auditing.*

We express appreciation to the State Controller, the office staff, and other state agencies, for their cooperation and assistance throughout the audit.

Contributors to this report included:

Vita Ozoude, CMA, CGMA, CPA, MBA
Executive Branch Audit Manager

Dennis Stoddard, MBA
Executive Branch Auditor

Office of the State Controller
Response and Implementation Plans

We provided draft copies of this report to the office for review and comments. Their comments have been considered in the preparation of this report and are included in Appendix A. In its response, the office accepted our recommendations. Appendix B includes a timetable to implement our recommendations.

NRS 353A.090 specifies within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps the office has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six month follow-up results to the committee and agency officials.

The following report contains our findings, conclusions, and recommendations.

Can The Office of the State Controller Increase Collections on Debts?

The Office of the State Controller (office) can increase collections on debts owed to agencies by:

- Automating the debt assignment process;
- Automating the debt offset process;
- Automating the licensee review process;
- Requiring agencies to request waivers to collect their debts;
- Resolving legal issues to allow collection of overpaid wages from state employees; and
- Writing off uncollectible debts.

We estimate automating debt assignment can result in a one-time benefit of over $30 million and annual benefits of approximately $5.3 million. Additionally automating debt offset can result in an annual benefit of approximately $82,000 and collecting overpaid wages from employees may result in a one-time benefit of $25,000.

Automate the Debt Assignment Process

Automating the debt assignment process makes it easier and less time consuming for agencies to assign debts to the office and for the office to assign debts to collection agencies. This can result in more debts being assigned timely to both the office and collection agencies and increased debt collections.

Assigning Debt is Difficult and Time Consuming

Staff from the office and other agencies represent assigning debts to the office is a difficult and time consuming process. The Department of Taxation (Taxation), which has the majority of debts owed to the state, represents assigning debts to the office requires significant staff resources.

Assigning debts is a manual process that involves entering data into as many as 70 fields on an Excel spreadsheet for each debt. The spreadsheets do not have error checks such as field validation.[2] Consequently, completing the spreadsheets requires large amounts of data entry with a pronounced possibility of entry errors. Agencies must dedicate significant resources to the process, which has deterred them from assigning debts to the office. As a result, not all past due debts have been assigned to the office, and debts that have been assigned are old and less collectible.

[2] Field validation ensures the proper type of data is entered; such as, a date or number as opposed to a name.

Assigning debts to private collection agencies (PCAs) is also difficult and time consuming. The amount of data and lack of error checks on the spreadsheets requires the office to dedicate significant resources to the process. Consequently, the office has not assigned debts to PCAs timely. Taxation represents they have been contacted by debtors who received collection notices as much as two years after debts were assigned to the office.

Past Due Debts Have Not Been Assigned as Required

In 2009, NRS 353C.195 was amended making it mandatory for agencies to assign debts over 60 days past due to the office for collection unless a different time period is agreed upon. However, using the spreadsheets has hindered agencies' ability to assign debts.

As of June 30, 2015, debts over 60 days past due totaling $314 million had not been assigned to the office as shown in Exhibit IV. Approximately $89 million of this debt is owed to agencies which are excluded from the statutory 60 day requirement.[3] Consequently, $225 million of debt subject to NRS 353C.195 has not been assigned.

Based on the aging schedule below, assigning these debts to the office can result in a one-time increase in collections of approximately $30 million. See Exhibit V.

Exhibit V

Estimated Collections on Past Due Debts as of June 30, 2015

Description	61-90 Days	91-120 Days	120+ Days [b]	Total
Unassigned Debt	$ 5,552,911	$ 8,193,322	$ 211,191,462	$ 224,937,695
Collection Rate [a]	70%	65%	10%	
Estimated Collections	$ 3,887,037	$ 5,325,660	$ 21,119,146	$ 30,331,843

Table Notes:
[a] Collection rates based on estimates from the Commercial Collection Agency Association, Commercial Law League of America. Assumes collection efforts commence 30 days after being assigned to the office.
[b] May include debts that are uncollectible due to age. Collection rates range from 52 percent (120 days) to zero, to be conservative an estimate of 10 percent was used.

[3] See Appendix D.

Future Annual Benefits from Assigning Debt to the Office

For the fiscal years ended 2012 through 2015 the average amount of debts aged between 61 and 90 days past due was about $7.5 million. Using the calculated average for future debts, we estimate assigning debts to the office timely could benefit the state by about $5.3 million annually. See Exhibit VI.

Exhibit VI

Average Annual Benefit

Fiscal Year	Past Due 61-90 Days
2015	$5,552,911
2014	$5,867,205
2013	$7,656,715
2012	$10,905,241
Average	$7,495,518
Collection Rate	70%
Average Annual Benefit (Approx.)	$5,250,000

Debts That Are Assigned Are Not Assigned Timely

Debts that have been assigned to the office are significantly more than 60 days past due and less collectible. We sampled 54 debts totaling approximately $246,000 assigned to the office in 2014 and noted these debts were on average 598 days past due. Assuming debts assigned from 2009 through 2105 were 598 days past due, we estimate not assigning these debts at 60 days past due may have cost the state approximately $86 million. See Exhibit VII.

Exhibit VII

Loss from Not Assigning Debts Timely

Year	Debt Assigned to the Office	Collections at 60 Days Past Due (70%)	Collections at 598 Days Past Due (10%) [a]	Loss Due to Not Assigning at 60 Days Past Due
2015	$ 10,690,861	$ 7,483,603	$ 1,069,086	$ 6,414,517
2014	13,961,327	9,772,929	$ 1,396,133	8,376,796
2013	27,780,740	19,446,518	$ 2,778,074	16,668,444
2012	20,405,527	14,283,869	$ 2,040,553	12,243,316
2011	25,358,637	17,751,046	$ 2,535,864	15,215,182
2010	19,272,071	13,490,450	$ 1,927,207	11,563,243
2009	25,899,273	18,129,491	$ 2,589,927	15,539,564
Total	$ 143,368,436	$ 100,357,905	$ 14,336,844	$ 86,021,062

Table Note: [a] Reflects the collection percentage for one and a half years based on estimates from the Commercial Collection Agency Association, Commercial Law League of America.

Debts Are Not Assigned Timely to Collection Agencies

The office has contracts with three PCAs to which debts are assigned.[4] However, the office has not assigned these debts timely.

Not Assigning Debts Timely Results in Decreased Collections

We sampled 54 debts totaling $246,000 assigned to the office by state agencies in 2014 and 2015. As of March 29, 2016, these debts had been held by the office an average of 359 days after being received from agencies.[5] On average, debts assigned to PCAs are 957 days past due.[6] The collection rate at 957 days past due is about two percent which is eight percent less than the rate at the time the debts are assigned to the office (10 percent less 2 percent). Not assigning debts to PCAs timely has cost the state approximately $2 million in collections for the two years 2014 and 2015. See Exhibit VIII.

Exhibit VIII

Loss From Not Assigning Debts to PCAs Timely

Year	Amount Assigned to PCA	Loss From Not Assigning Timely
2014	$ 13,961,327	$ 1,116,906
2015	10,690,861	$ 855,269
Total	$ 24,652,188	$ 1,972,175

Table Note: Office could not provide actual amounts assigned to PCAs but represents almost all debts assigned to them from agencies are assigned to PCAs. Accordingly, this analysis uses amounts assigned to office as assigned to PCAs.

Agencies Question Office's Ability to Collect Debt

The reduction in the collection rate by not assigning debts timely has also eroded agencies' confidence in the office's ability to effectively collect debts. Taxation represents it is not cost beneficial to dedicate the significant resources required in assigning debts to the office due to the office's ineffectiveness in collecting debts.

[4] PCAs charge the state collection fees on any debts under $300 and charge the debtor for debts of $300 or more. As less than five percent of debts assigned are under $300, collection fees were not included in calculations.

[5] As of March 29, 2015, approximately 70 percent of the debts had not been assigned to a PCA. For this analysis, we assumed debts were assigned on March 29, 2015. Consequently, the decrease in value is a conservative estimate.

[6] 598 days past due when assigned to the office plus 359 days when assigned to PCAs.

Office Contracted With Vendor to Automate Debt Assignment Process

In August 2014 the office entered into a contract for $1,848,000 with a vendor to develop a debt collections system (system).[7] The contract included six initiatives in the scope of work; one of which intended to automate the debt assignment process. Excel spreadsheets were to be replaced with a form that is much easier and less time consuming to use and would significantly reduce the amount of errors. The goal was to replace the Excel spreadsheets at the system go-live date scheduled for the fall of 2015; however, the go-live date was delayed.

The vendor accused the office of not complying with contract requirements, which the office formally refuted. The vendor claimed additional work would be required to achieve the contract's objective and requested a contract amendment. The office represents due to concerns the vendor might cancel the contract and request full payment of the $1,848,000, it entered into an amendment dated November 20, 2015 raising the cost of the contract to $2,531,790. A new go-live date is scheduled for May 2016.

Automating the debt assignment process will make it easier for agencies to assign debt to the office for collection and for the office to assign debts to private collection agencies.

Recommendation

1. Automate the debt assignment process.

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[7] Payments were to be made from the incremental amount of collections the state received. The incremental amount is the additional collections attributable to implementing the system. To date, no payments have been made as the system has not been implemented. An annual maintenance of $145,000 separate from the contract cost is due in full July 2016.

Automate Debt Offset Process

Automating the debt offset process will make it easier for the office to identify vendors who owe debts and offset payments to vendors by the amounts owed. This can increase collections by $82,000 annually.

Debt Offset Has Seldom Been Used Since 2013

NRS 353C.190 was enacted in 1999 which allows the office to offset payments to vendors by the amount of money they owe to state agencies. However, since fiscal year 2013, debt offset has seldom been used. Total offsets were $8,190 from 2014 through 2016, compared to $141,209 from 2009 through 2013.[8] See Exhibit IX.

Exhibit IX

Debt Offset 2009 through 2016

Fiscal Year	Amount of Debt Offset	Average Per Year		Fiscal Year	Amount of Debt Offset	Average Per Year
2009	$ 9,024					
2010	83,871					
2011	18,558			**2014**	$ 6,668	
2012	12,037			**2015**	1,522	
2013	17,719			**2016**	0	
Total	$ 141,209	$ 28,242		**Total**	$ 8,190	$ 2,730

Debt Offset Involves a Manual Time Consuming Process

Office staff represent performing debt offset is a manual and time consuming process. To perform debt offset, office staff must first identify any vendors owing debt. This requires manually comparing the debts assigned to the state's vendor listing. Holds are then placed on these vendors in the state's accounting system which prevents agencies from processing payments. Placing holds on vendors in the accounting system is also a manual and time consuming process. Office staff represent the manual processes have deterred them from using debt offset and debt offset has occurred only upon instruction from agencies processing payments.

Debt Offset Can Increase Collections

The state may have lost potential collections by not using debt offset. We reconciled a list of 10,000 debts totaling $11.5 million owed to Taxation to the state's vendor listing, and found 19 payments in excess of $5 million were made to vendors owing Taxation approximately $43,000. The $43,000 in debt represents 0.4 percent of the sample.

[8] Single offsets of $293,569 and $600,600 done in 2013 and 2012 were removed for comparison purposes.

This represents about $573,000 in potential collections by using debt offset on the total debt assigned to the Controller from 2009 through 2015, or about $82,000 annually in future debt offsets.[9]

Automating the debt offset process will enhance the office's ability to offset payments to vendors by the amount of money they owe to the state. The office represents the contracted debt collections system will automate this process.

Recommendation

2. Automate the debt assignment process.

Automate Licensee Lists Review Process

Automating the process for reviewing state licensee lists for anyone owing debt to the state will enhance the office's ability to prevent past due debtors from renewing state issued licenses.

Office Can Prevent Debtors From Renewing State Issued Licenses

NRS 353C.1965 was enacted in 2013, which requires licensing agencies who regulate occupations or professions to submit lists of licensees to the office annually. The office is required to attempt to collect debt owed to the state from anyone on the list. The office is also required to instruct licensing agencies to not renew licenses for anyone who fails to pay.

Office Has Not Reviewed Licensee Lists

The office has not reviewed licensee lists; consequently, it has not instructed licensing agencies to deny license renewals. The office maintains licensing agencies have not submitted licensee lists as required by statute. Additionally, the office represents reconciling the licensee lists to debt listings is a time consuming and manual process. The office represents automating this process will enable them to implement the statute and may increase collections; however, automating this process is not included in the scope of the contracted debt collections system.

Automating the process of reviewing licensee lists will enhance the state's ability to prevent past due debtors from renewing state issued licenses.

[9] Total debt assigned from 2009 to 2015 is $143 million (see exhibit VII) times 0.4 percent is $573,000 or $82,000 annually ($573,000 divided by 7 years).

Recommendation

3. Automate licensee lists review process.

Require Agencies to Obtain Waivers to Collect Their Debts

The office should require agencies to obtain waivers to collect their debts. This will increase collections by ensuring agencies who request waivers to collect their debts have demonstrated an effective debt collection process.

NRS 353C.195 allows agencies to retain debts more than 60 days past due if a different time period is agreed upon with the office. Agencies that collect debts need to request a waiver to retain debts longer than 60 days past due in order to implement additional collection efforts.

Taxation Collects Debts Without a Waiver

As shown in Appendix D, Taxation accounts for over $200 million of the total unassigned debts and has staff whose primary responsibilities include debt collection activities. However, the office has never analyzed the effectiveness of Taxation's collection efforts. Taxation represents using their staff for collection activities is more efficient and effective due to difficulties in the assignment process and concerns regarding the office's ability to effectively collect debts.

Requiring agencies to obtain waivers to collect their debts will increase collections by ensuring those agencies have demonstrated an effective debt collection process.

Recommendation

4. Require agencies to obtain waivers to collect their debts.

Resolve Legal Issues to Allow Collection of Overpaid Wages from State Employees

The office should coordinate with the Office of the Attorney General to resolve legal issues regarding deducting overpaid wages from employees' paychecks. This will allow the state to effectively recover overpaid wages from employees, and result in a one-time increase in collections of $25,000.

Overpaid Wages Not Deducted From Current Employees Paychecks

The state has not been able to recover approximately $25,000 in overpayments from 20 current employees due to potential legal issues.[10]

NRS 227.150 authorizes the Controller to withhold from compensation of an employee any amount due the state for overpayment of wages. Employees must be notified in writing and are given 10 days to request a hearing to contest the Controller's determination to withhold the overpayment.

When employees are overpaid, the state's payroll office (payroll) requests they sign an "Acknowledgements of Overpayment/Agreement to Repay" form. If employees refuse to sign the form, payroll has no authority to deduct overpayments from their paychecks.

In the past, payroll referred these employees to the office for resolution pursuant to NRS 227.150. In July 2013 as advised by the Office of the Attorney General, the office informed payroll the Controller could no longer collect on current employee overpayments due to legal issues. Consequently payroll no longer refers current employee overpayments to the office.

Potential Legal Issues May Prevent Deduction of Overpaid Wages

A Deputy Attorney General (DAG) represented there are potential legal issues that may prevent deduction of overpaid wages from employee paychecks. Although NRS 227.150 authorizes the Controller to withhold overpaid wages from employee's compensation, NRS 353C.195 prohibits agencies from assigning contested debts to the office. The DAG is working with payroll to resolve the potential legal issues.

Resolving legal issues regarding deducting overpaid wages from employees' paychecks will allow the state to effectively recover overpaid wages from employees.

[10] Overpayments include being paid at the wrong pay rate, using more military leave than allowed, and incorrect deductions for benefits and retirements.

Write-Off Uncollectible Debts

The office should request approval from the Board of Examiners to write-off debts deemed uncollectible or impractical to collect. This will remove debts that most likely will never be collected from the state's accounts receivable balance and allow the office to more accurately measure the effectiveness of debt collection activities.

Uncollectible Debts Not Written-Off Since 2012

Debts deemed uncollectible or impractical to collect have not been removed from the state's accounts receivable balance (written-off) since May 2012. Consequently, the accounts receivable balance is overstated as it includes debts the state will most likely never collect. Moreover, the state cannot accurately measure its debt collection effectiveness by comparing collections to accounts receivable balances.

Accounts Receivable Includes Uncollectible Debts

The state's accounts receivable balance includes debts that most likely will never be collected. As shown in Exhibit IV, accounts receivable includes approximately $268 million of debts that are more than 120 days past due. These debts are retained by multiple agencies and may be two or more years past due, making them uncollectible. In the event agencies assign these debts as required by NRS 353C.195, the office can request debts determined to be uncollectible or impractical to collect be written off. Additionally, the office currently has approximately $95 million in debts assigned from agencies that are over two years past due and have not been written off.

Writing off uncollectible debts will remove debts that will most likely never be collected from the state's accounts receivable balance and allow the office to more accurately measure the effectiveness of debt collection activities.

Recommendations

5. Resolve legal issues to allow collection of overpaid wages from state employees.

6. Write-off uncollectible debts.

Exhibit IX

Estimated Benefits

Recommendations	One-Time Benefit	Annual Benefit
Automate the Debt Assignment Process	$30,000,000	$5,250,000
Automate the Debt Offset Process		$82,000
Resolve Legal Issues to Allow Collection of Overpaid Wages.	$25,000	
Total	**$30,025,000**	**$5,332,000**

Should The State Collection Agent Responsibilities Be Transferred?

Transfer the State's Collection Agent Responsibilities to the Governor's Finance Office

Submitting a Bill Draft Request (BDR) to transfer the state collection agent responsibilities to the Governor's Finance Office would improve the effectiveness of the state's debt collection efforts. The Governor's Finance Office falls under the authority of the Governor. The Governor appoints most agency directors and approves their budget requests, giving the Governor greater ability to enforce collection statutes. Additionally, the Governor's Finance Office has auditors who can perform reviews to determine the extent of agencies' compliance with debt collection statutes.

Debt Collection Statutes Have Been Ineffective

In 2009, NRS 353C.195 was amended identifying the Controller as the state's collection agent and making it mandatory for agencies to assign debts over 60 days past due to the office. In 2013, NRS 353C.1965 was established requiring licensing agencies to submit lists of licensees to the office. As of June 30, 2015, $225 million in debts over 60 days past due were not assigned to the office and no lists of licensees have been submitted. Although agencies represent this is due to difficulties in the debt assignment process and lack of confidence in the office's ability to effectively collect debts, most have not complied with the statutes. Even if the debt process is automated, some agencies may be hesitant to comply with these statutes due to past experiences with the office and a lack of consequences for non-compliance.

Controller has Limited Ability to Enforce Debt Collection Statutes

The office has expressed concerns regarding the Controller's ability to require agencies to comply with debt collection statutes. Additionally, a DAG noted there are no penalties if agencies do not comply with debt collection statutes. This has impacted the office's ability to require agencies to assign debts. It has also impacted the office's ability to require licensing agencies to submit licensee lists.

Controller Lacks Authority to Audit Agencies' Debts

Attorney General Opinion 2012-05 states the Controller's audit authority under Nevada law applies to auditing claims against the state. The opinion does not indicate the Controller has authority to audit agencies beyond that extent. Therefore, the Controller is not authorized to audit state agencies to determine if all debts have been assigned pursuant to NRS 353C.195.

Transferring the responsibilities of the state's collection agent to the Governor's Finance Office would improve the effectiveness of the state's debt collection efforts.

Recommendation

7. Submit a BDR to transfer the state's collection agent responsibilities to the Governor's Finance Office.

Appendix A

Office of the State Controller
Response and Implementation Plan

RON KNECHT,
MS, JD, PE (CA)
State Controller

STATE OF NEVADA

JAMES W. SMACK
Chief Deputy Controller

GEOFFREY LAWRENCE
Assistant Controller

OFFICE OF THE
STATE CONTROLLER

May 27, 2016

Steve Weinberger, Administrator
Division of Internal Audits
209 E Musser St, Suite 302
Carson City, NV 89701

Dear Mr. Weinberger,

Pursuant to NRS 353A, this represents our response to the Division of Internal Audits recommendations in their report submitted to and initially reviewed by our office with your staff on 16 May 2016. Let me express our gratitude and thanks to you and your team for doing such a thorough job on your report and the recommendations.

Recommendations that should take no more than six months to implement:

Recommendation #1: Automate the debt assignment process.

The Controller's Office agrees with this recommendation.

We have reached an impasse with the contractor that we were using to implement a debt collection system. Our IT and Debt Collection teams are going to be looking at out-of-the-box, inexpensive solutions to automate both our database and the debt assignment process for the state agencies. We will be researching options through June and July, complete an RFP if necessary, and implement the solution over the course of the next six months. Two potential obstacles: the RFP process and coordination with the Governor's Office on potentially moving debt collection operations from SCO to elsewhere. We will need to reach out to the Governor's staff to work on a transition plan, which may delay implementation of this recommendation. See the note at the end of this response.

Estimated Completion: December 2016

Recommendation #2: Automate the debt offset process.

The Controller's Office agrees with this recommendation.

Due to the impasse we have reached with the contractor we were using to implement a debt collection system, this initiative will be rolled into the process of implementing an inexpensive out-of-the-box solution for debt collection. We should be able to research, complete an RFP, and implement this solution by the end of the year, and we expect the debt offset process will be automated with this solution. Two potential obstacles: the RFP process and coordination with

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(NSPO Rev. 7-15) (O) 3525

the Governor's Office on potentially moving debt collection operations to another agency. We will need to reach out to the Governor's staff to work on a transition plan, which may delay implementation of this recommendation. See the note at the end of this response.

Estimated Completion: December 2016

Recommendation #4: Require agencies to obtain waivers to collect their debts

The Controller's Office agrees with this recommendation.

NRS 353C.195 states that state agencies have to turn over their debt to the Controller's Office once those debts have reached 60 days past due. In the past, this provision has not been enforced as our office has not had a collections tool that would provide the state agencies the peace of mind that our office is a better operation for collecting the debt than the agency itself. Once we implement the out-of-the-box solution for debt collection, we will be ramping up collection activity as we will have the automation tools we don't have today.

We will be sending a letter from the State Controller to any agency that is holding debt longer than 60 days requesting that they send the debt immediately to our office or request a waiver. These waivers can take several forms, including extending the 60-day deadline to a longer period. Within 30 days after contacting the agencies, a second letter to offending agencies will be sent copied to the Governor's Chief of Staff, and we will request the assistance of the Governor's office at that time in ensuring compliance with NRS by agencies that are still non-compliant.

The lack of punitive measures at the disposal of the Controller's Office is addressed further in Recommendation #7.

Estimated Completion: December 2016 for the notification letters to go out from our office, with actual waivers being completed afterwards based upon received responses

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Recommendation #6: Write off uncollectable debts

The Controller's Office agrees with this recommendation.

Our office recognizes there is substantial debt on our books that should be deemed uncollectable. Although we would like to take the opportunity to run some of these debts through the new system to see if we can obtain some address updates and perhaps collect a small percentage of those monies owed, there is a large amount of the aged debt up to 20 years old that needs to be written off. This is an accounting procedure, and it does not mean the debt can never be collected. We will look in particular at all the debt older than five years within our debt portfolio and submit debt deemed uncollectable to the Board of Examiners for write-off. We estimate, because this has not been completed since 2012, and with the large amount of debt aged over five years on the books, this will be a substantial amount of debt.

Furthermore, we will commit to the process of completing the write-off on an annual basis so our office and other interested parties can more accurately measure our collection activity.

Estimated Completion: September 2016 (prepared for the next Board of Examiners meeting, actual write off depends on BOE schedule, likely by November 2016)

Recommendations that will take longer than six months to implement:

Recommendation #3: Automate licensee lists review process

The Controller's Office agrees with this recommendation.

We will be looking into automating this process, but it may not be something we can incorporate within the solution we adopt for debt collection. We will start this process at the end of the calendar year with the goal of implementing the process being done by the end of Fiscal Year 2017. Since it is unclear at this point if this is something that can be done by a debt collection solution that our IT team and Debt Collection team implements for automation purposes, we estimate this will take about a year to implement.

Estimated Completion: July 2017

Recommendation #5: Resolve legal issues to allow collection of overpaid wages from state employees.

The Controller's Office agrees with this recommendation.

Although we have categorized this recommendation in the longer than six months to implement category, we will be reaching out to our Deputy Attorney General to get a handle on these legal issues within the next month. Although this represents $25,000 in potential monies due to the state, this number may be reduced depending on the legal issues, and our office wants to concentrate our energies on implementing the other recommendations that will give the collections efforts more "bang for the buck".

Once we have a handle on the potential legal issues, the date for completion may be accelerated.

Estimated Completion: March 2017

Recommendation #7: Submit a BDR to transfer the state's collection agent responsibilities to the Governor.

The Controller's Office agrees with this recommendation.

Our action plan is to reach out to the Governor and his staff to work on the language for the BDR request and submit the request for the next Legislative Session. We agree with the three reasons why this division would be better housed within the Governor's Office.

Debt Collection Statutes have been ineffective due to two reasons. First, without a debt collection system that automates many of the manual processes, we have not been able to effectively enforce the statute; we recognize that under current circumstances many agencies will likely have more success in continuing to collect their agency debt in house. The second reason is lack of punitive power to enforce NRS 353C.195 by the State Controller.

The Controller lacks the authority to audit agency debts, an authority that lies within the Office of the Governor. This provides their office with the ability to audit state agencies for compliance.

The Controller is limited in its auditing capability to only being able to review claims against the State.

Absent Legislation changing control of the debt collection operations from the Controller's Office to the Office of the Governor, we would like to provide a suggestion. We would like to partner with the Governor in all correspondence with the agencies. As noted in the audit report, the Controller's Office has no punitive power over the state agencies providing us their debt within the confines of NRS 353C.195 requiring state agencies to turn over their debt to the Controller's Office after 60 days of collection efforts by the agency. The power over approving budget requests and appointing most directors lies with the Governor. Therefore, we would like to request that we have all correspondence in reference to enforcement of NRS 353C.195 be signed by both the Controller and the Governor for maximum effectiveness, with specific punitive measures jointly determined between the two offices.

Estimated Completion: July 2017

Note:

Particularly when it comes to Recommendation #1 and #2, the dates we provide are very rough estimates with several variables in play. We did not anticipate during the course of this audit that the contract we had with CGI was going to go sideways and the debt collection solution being developed would never go into production. We are now looking for inexpensive solutions that have the ability to provide us the automation we need as the first priority. However, these solutions will not provide flexibility, and may take some time from researching solutions, to preparing and completing an RFP, to actual implementation. Our goal is to have this solution in operation by the end of the year, but we prefer to get it right as opposed to rushing into a solution that may not meet our needs. Since we are looking at moving in the direction of moving debt collection operations to the Office of the Governor, some coordination between our offices will be required. One potential positive result could be implementing automation of the licensee lists with the solution, which was not going to be an option with the system being developed by CGI.

Thank you again for all of the hard work and dedication from you and your team. We are, of course, taking all of these recommendations seriously, and will continue to diligently work to move our debt collection operation forward not only for measureable successes for our team, but to create a success story for the State of Nevada.

Sincerely,

Ronald L. Knecht

Ron Knecht, MS, JD, PE (CA)
State Controller

Appendix B

Timetable for Implementing Audit Recommendations

In consultation with the Office of the State Controller (office), the Division of Internal Audits categorized the seven recommendations contained within this report into two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). The office should begin taking steps to implement all recommendations as soon as possible. The office's target completion dates are incorporated from Appendix A.

Category 1: Recommendations with an anticipated implementation period of less than six months.

Recommendations	Time Frame
1. Automate the debt assignment process. (page 11)	Dec 2016
2. Automate the debt offset process. (page 13)	Dec 2016
4. Require agencies to obtain waivers to collect their debts. (page 14)	Dec 2016
6. Write off uncollectable debts. (page 16)	Sep 2016

Category 2: Recommendation with an anticipated implementation period exceeding six months.

Recommendation	Time Frame
3. Automate licensee lists review process. (page 14)	Jul 2017
5. Resolve legal issues to allow collection of overpaid wages from state employees. (page 16)	Mar 2017
7. Submit a BDR to transfer the state's collection agent responsibilities to the Governor. (page 18)	Jul 2017

The Division of Internal Audits shall evaluate the action taken by the office concerning report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the committee and the office.

Appendix C

Agencies Interviewed

Department of Administration, Division of Human Resources and Management - Payroll
Department of Agriculture
Office of the Attorney General
Department of Business & Industry,
    Division of Industrial Relations
    Division of Insurance
Department of Corrections - Inmate Services
Department of Employment, Training & Rehabilitation, Employment Security Division
Department of Health and Human Services,
    Division of Child & Family Services
    Division of Health Care Financing and Policy
    Division of Public and Behavioral Health
Public Employees Benefits Program
Department of Public Safety,
    Office of the Director
    Emergency Response
    General Services Division
    Nevada Highway Patrol
    Division of Parole & Probation
    State Fire Marshal
Public Utilities Commission
Department of Taxation
Department of Veterans Services
Department of Wildlife

Appendix D

Agencies With Debts Over 60 Days Old

Dept.	Agency	Over 60 Days
Admin	Administration	$ 2,206
Agri	Agriculture	4,371
A.Gen	Attorney General	2,585,863
B&I	Industrial Relations	8,940,119
B&I	Financial Institutions Division	9,849
B&I	Insurance	6,783
B&I	Transportation Authority	33,500
DCNR	State Lands	560
DCNR	State Parks	3,613
DCNR	BWPC	600
DCNR	Forestry	512,179
DCNR	Water Resources	272,612
NDOC	Corrections	77,266
DETR	Empoyment Security Division	61,658,314
DHHS	Aging & Disability	132,795
DHHS	Divison of Health Care Financing & Policy	6,846,173
DHHS	DPBH-NNAMHS/SNAMHS	20,255,274
DMV	Motor Vehicles	424,911
DOT	Transportation	1,753,478
GCB	Tax and License	24,254
HHS	Health Division	435,098
PEBP	PEBP	417,576
PS	General Services/Records & Technology	23,009
PS	SERC	4,600
PU	Public Utilities	45,350
Tax	Taxation	209,050,910
T&CA	Nevada Magazine	7,910
Wildlife	Wildlife	192,539
	Total	$ 313,721,710
	Less funds that cannot be assigned:	
	Empoyment Security Division	$ (61,658,314) [a]
	Divison of Health Care Financing & Policy	(6,846,173) [b]
	DPBH-NNAMHS/SNAMHS	(20,255,274) [c]
	Total	$ (88,759,761)
	Total Subject to 60 Day Requirement	$ 224,961,949

Table Notes:

[a] Reflects unemployment overpayments due from recipients for which agency is required to collect under NRS 612. Additionally, agency represents the June 30, 2015 was overstated by approximately $30 million due to errors resulting from a system conversion. The accounts receivable balance has since been corrected.

[b] Reflects provider overpayments and drug reimbursement rebates which agency is federally authorized to collect.

[c] Reflects reimbursement requests made to insurance companies for services provided, which will either be paid or denied. Denied requests result from non-covered services and are removed from the accounts receivable balance. Agency cannot assign denied reimbursement requests as they are either uncollectible or in dispute. Additionally, agency represents amount is overstated by denied requests which were not removed from balance as of June 30, 2015.