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Nevada State Controller's Office

A Response to AJR 16: A proposal to amend the Nevada Constitution by combining the Office of the State Controller and the Office of State Treasurer

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ASSEMBLY WAYS AND MEANS

DATE: 5-15-03 ROOM: 3137 EXHIBIT E

SUBMITTED BY: Ms. Kathy Augustine

Testimony to Assembly Ways and Means Committee
15 May 2003
By State Controller Kathy Augustine

AJR 16 proposes to combine the State Controller's and State Treasurer's Offices. This bill in essence eliminates a fundamental and critical checks and balances system necessary to protect taxpayer dollars.

Checks and balances preserve independence & public accountability. Electing both the State Controller and State Treasurer assures Nevadans that both offices remain independent and accountable only to the public. Likewise, it preserves a fundamental and critical internal control over taxpayer money: the person handling the money is not writing the checks; and vice versa. This constitutional construct significantly reduces the risk of mishandling state funds by assuring citizens that no one individual or office controls all aspects of the state's financial transactions or events.

The Standards for Internal Controls in the Federal Government

manual reiterates the need for a separation of key duties by stating:

“Key duties and responsibilities need to be divided and segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions and handling any related assets.”

While it is true that technology, via our new IFS financial system, allows for more control over financial transactions, it should be remembered that increased automation of a process does not necessarily decrease the risk for fraud or the mishandling of monies. Technology does not replace the need for the separation of key duties and responsibilities.

By removing the independence of both offices, we also put at risk the unique and critical functions of the State Controller's office.¹

¹ See Appendix A for a comparison of general responsibilities of the State Controller's and the State Treasurer's office. See Appendix B for a detailed list of State Controller responsibilities. by the Controller's office.

As shown in **Appendices A and B**, the functions of the State Controller's office and the State Treasurer's office differ quite a bit and are not redundant, as some have argued, because of the current separation of duties. Additionally, it has never been proven that this change would produce any real cost benefits. Dollar figures used in the past have had no basis and are unfounded at best.

In conclusion, AJR 16 proposes to alter the constitution² without any overriding public demand for this change, without any real documented benefits, while seriously weakening the existing environmental control and diluting public accountability that has, since 1864, served the citizens of Nevada quite well.

² See Appendix C for Constitutional Amendment process.

Appendix A

State Controller and State Treasurer General Responsibilities

As shown in **Exhibit 1.1**, the responsibilities of the State Controller's Office and the State Treasurer's Office are quite divergent and maintain independence between both offices and ensure an effective system of checks and balances.

Exhibit 1.1

General Responsibilities	
State Controller's Office	State Treasurer's Office
<i>Administering the state accounting system and settling all claims against the state and as such must ensure compliance with the intent of the constitution, federal laws, and state statutes. Additionally, charged with administering the state's debt collection program.</i>	<i>Receive, receipt, and safeguard all money of the state, which is not expressly required by law to be received and kept by some other person.</i>
<i>Providing state agencies with on-line information for administering their budgets and conducting financial activities associated with their legislatively directed missions.</i>	<i>Disburse the public money under warrants drawn upon the Treasury by the State Controller and not otherwise.</i>
<i>Prepare and provide access to financial reports, such as the comprehensive annual financial report (CAFR) and the popular annual financial report (PAFR). Both reports are essential in the marketing and selling of state bonds. Prepare and provide financial reports to federal agencies on income, cash management activity, and single audit activity.</i>	<i>Establish and operate investment programs for all available state funds which include, but are not limited to, the General Investment Portfolio, the Local Government Investment Pool, Prepaid Tuition Program, Millennium Scholarship, and the Permanent School Fund.</i>
<i>Compute, withhold, and account for all state payroll deductions and oversee all records in connection with administration and compliance with federal revenue and income tax laws.</i>	<i>Issuance of any obligation authorized on behalf and in the name of the State (with few exceptions), and to serve as the primary representative of state in matters related thereto.</i>

Appendix B

Comprehensive Duties of Each Office

Comprehensive List of the State Controller's Office Responsibilities

Overseeing the State's Financial Reporting and Accountability

- Serving as the State's ex-officio Chief Fiscal Officer
- Serving on the State Board of Finance, which oversees the policies on investments, cash management and the sale of industrial development and housing bonds
- Serving on the Department of Transportation Board, which oversees the policies on the construction and maintenance of state roads and highways
- Serving as a member of the Executive Branch Audit committee
- Preparing an annual statement of financial status and public debt, (including the Permanent School Fund, CAFR and PAFR) and conducting audits
- Paying state employees, computing, withholding and accounting for all payroll deductions
- Reviewing 1099s and federal and state payroll taxes
- Reporting and reconciling single audits
- Accounting for fixed assets
- Preparing financial schedules for Single Audit act
- Calculating arbitrage on state bonds and paying assessments
- Insuring compliance with the Cash Management Improvement Act (CMIA)
- Managing federal grants
- Insuring compliance with federal laws, state statutes and the State Constitution

Administering the State Accounting System

- Receiving monies, inputting and recording into the financial system and preparing deposits for the Treasurer (monthly and quarterly)
- Drawing all warrants in payment of state obligations and issuing warrant approving Treasurer's investments
- Implementing and training of personnel for the Integrated Financial System (IFS)
- Maintaining the accounting records and general ledger of the state
- Performing the function of appropriations control
- Maintaining the central vendor data warehouse
- Administering and training personnel on the financial Data Warehouse of Nevada (DAWN)

Administering the Statewide Coordinated Debt Collection Process

- Collecting bad checks and settling all claims against the state (in conjunction with the Attorney General's office). Assist agencies in developing policies and procedures for recovering debt.
- Contracted private debt collection companies to recover \$118 million in outstanding debt.
- Require receivable reports for all agencies on a quarterly basis.
- Established a warrant offset (voucher intercept) program that allows the Controller's Office to intercept payment vouchers going to a vendor and use the payment to pay another agency owed money by the same vendor.

Comprehensive List of the State Treasurer's Office Responsibilities

- Serves as the State's ex-officio disbursing officer.
- Serves on the State Board of Finance, which oversees the policies on investments, cash management and the sale of industrial development and housing bonds.
- Serves as a member of the Executive Branch Audit committee.
- Establishes policies for the investment of state money, subject to review by the state Board of Finance.
- Deposits the monies of the state.
- Administers the pre-paid college education plan.
- Disburses public money upon warrants drawn by the State Controller.
- Serves as primary representative with bond credit rating agency and responsible for bond management.
- Fixes, charges and collects fees for investing money or special services rendered to other agencies.
- Prepares and submits annual report to the governor and the legislature.
- Insures compliance with federal law in regard to his duties as disbursing officer.

Appendix C Constitutional Amendment Process

Article 16, section 1 of the State of Nevada's Constitution requires that a majority in both houses approve the proposed constitutional amendment in two consecutive legislative sessions. After this has been accomplished, then the proposed constitutional amendment would be subject to public vote in which a majority would have to approve it. This would that AJR 16 would have to be approved in both the 72nd and the 73rd legislative session and then be subject to a public vote afterwards in order to combine these two independent offices.

ARTICLE. 16.

AMENDMENTS.

- SEC. 1. Constitutional amendments: Procedure; concurrent and consecutive amendments.
2. Convention for revision of constitution: Procedure.

Section 1. Constitutional amendments: Procedure; concurrent and consecutive amendments. 1.

Any amendment or amendments to this Constitution may be proposed in the Senate or Assembly; and if the same shall be agreed to by a Majority of all the members elected to each of the two houses, such proposed amendment or amendments shall be entered on their respective journals, with the Yeas and Nays taken thereon, and referred to the Legislature then next to be chosen, and shall be published for three months next preceding the time of making such choice. And if in the Legislature next chosen as aforesaid, such proposed amendment or amendments shall be agreed to by a majority of all the members elected to each house, then it shall be the duty of the Legislature to submit such proposed amendment or amendments to the people, in such manner and at such time as the Legislature shall prescribe; and if the people shall approve and ratify such amendment or amendments by a majority of the electors qualified to vote for members of the Legislature voting thereon, such amendment or amendments shall, unless precluded by subsection 2 or section 2 of article 19 of this constitution, become a part of the Constitution.

2. If, two or more amendments which affect the same section of the constitution are ratified by the people pursuant to this section at the same election:

(a) If all can be given effect without contradiction in substance, each shall become a part of the constitution.

(b) If one or more contradict in substance the other or others, that amendment which received the largest favorable vote, and any other ratified amendment or amendments compatible with it, shall become a part of the constitution.

3. If, after the proposal of an amendment, another amendment is ratified pursuant to this section which affects the same section of the constitution but is compatible with the proposed amendment, the next legislature if it agrees to the proposed amendment shall submit such proposal to the people as a further amendment to the amended section. If, after the proposal of an amendment, another amendment is ratified pursuant to this section which contradicts in substance the proposed amendment, such proposed amendment shall not be submitted to the people.