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WISHART: Welcome to the Appropriations Committee hearing. My name is Anna Wishart. I am a state senator that represents District 27 in the Legislature and I serve as Vice Chair of the committee. Looks like we've got our Chair coming shortly. I would like to start off by having members introduce themselves, starting with Senator Erdman.

ERDMAN: Good morning. Steve Erdman, District 47, ten counties in the Panhandle.

CLEMENTS: Rob Clements, District 2, Cass County and parts of Sarpy and Otoe.

McDONNELL: Mike McDonnell, LD5, south Omaha.

STINNER: John Stinner, District 48, all of Scotts Bluff County.

WISHART: Senator Anna Wishart, District 27, west Lincoln.

DORN: Myron Dorn, District 30, Gage County and southeastern fourth of Lancaster.

STINNER: Assisting the committee today is Brittany Sturek. For the safety of our committee members, staff, pages and public, we ask those attending our hearings to abide by the following. Submission of written testimony will only be accepted between 8:30 and 9:30 in respective hearing room where the bill is being heard later that day. The individuals must present their written testimony in person during that-- this time frame and sign-- and sign the submitted written testimony record at the time of submission on the day of the hearing bill. We do make exceptions for people with disabilities. Due to the social distancing requirements, seating in the hearing room is limited. We ask that you only enter the room-- hearing room when it is necessary for you to attend the bill hearing. The bills will be taken up in order of posted outside the hearing room. The list will be updated after each hearing to identify which bill is currently being heard. The committee will pause between each bill to allow time for the public to move in and out of the hearing room. We request that everyone utilize the identified entrance and exit doors to the hearing room. We request that you wear a face covering while in the hearing room. Testifiers may remove their face covering during the testimony to assist committee members and transcribers in clearly hearing and understanding the testimony. Pages will sanitize the front table and chair between testifiers. Public hearings for which attendance-- attendance reaches seating capacity or near capacity, the entrance store will be monitored by the Sergeant-at-Arms, who will allow people to enter the hearing room based upon seating availability. Persons waiting to enter the hearing room are asked to observe social distancing, wear a face mask covering while waiting in the hallway or outside the building. To better facilitate today's proceeding, I ask that you abide by the following. Please silence or turn off your cell phone. Move to the front row when you are ready to testify. Order of testimony will be introducer, proponents, opponents, neutral, closing. Testifiers, sign in. Hand your blue sign-in sheet to the committee clerk when you come up to testify. Spell your name for the record before you testify. Be concise. It's my request that you limit your testimony to five minutes. If you will not be testifying at the microphone but want to go on the record as having a position on a bill being heard, there are white sheets at-- at the entrance where you may leave your name and other pertinent information. These sign-in sheets will become exhibits in the permanent record at the end of today's hearing. We ask that you please limit or eliminate handouts. Written materials will be distributed to committee members as exhibits only while testimony is being offered. Hand them to the page for distribution to the committee and staff when you come up to testify. We need 12 copies. If you have written testimony but do not have 12 copies, please raise your hand now so that the page can make copies for you. With that, we will get in today's hearing with Agency 92 [SIC], Commission on the Deaf and Hard of Hearing. I see no one in attendance right now. I will wait for just a minute.

CLEMENTS: It's 82, I think.

STINNER: Did I-- yes, Agency 82.

CLEMENTS: Oh, I heard 92.

STINNER: Oh, did I-- is that what I said, 92? Excuse me. Seeing no one here, we will close the hearing on Agency 82, Commission on Deaf and Hard of Hearing. We will now open on Agency 81, Commission for the Blind and Visually Impaired. Seeing no one in attendance, we will close the hearing on Agency 81. We will now open on Agency 67, Equal Employment Opportunity Commission. Seeing no one here, we will close the hearing on Equal Employment Opportunity Commission. Agency 68, Latino American Commission, we'll open the hearing on-- on Agency 68, Latino American Commission. Seeing no one here, we will close the hearing on Agency 68, Latino American Commission. Agency 7-- we will now hear Agency 70, Foster Care Review Office. Seeing no one here, we will now close the hearing on Agency 70, Foster Care Review Office. We will now open on Agency 76, Commission on Indian Affairs. And seeing no one here, we will now close the hearing on Agency 76. Agency 90, African American Affairs Commission, are they going to show up or no?

______________________: [INAUDIBLE]

STINNER: No?

______________________: [INAUDIBLE]

STINNER: OK, seeing no one here, we'll now close on Agency 90, African American Affairs Commission. And that will close our hearings for this morning.

STINNER: [RECORDER MALFUNCTION] committee hearing. My name is John Stinner. I'm from Gering and represent the 48th Legislative District. I serve as Chair of this committee. I'd like to start off by having members do self-introductions, starting with Senator Erdman.

ERDMAN: Steve Erdman, District 47. I represent ten counties in the Panhandle.

CLEMENTS: Rob Clements, from District 2, Cass County and parts of Sarpy and Otoe.

McDONNELL: Mike McDonnell, LD5, south Omaha.

HILKEMANN: Robert Hilkemann, District 4, west Omaha.

STINNER: John Stinner, District 48, all of Scotts Bluff County.

WISHART: Anna Wishart, District 27, west Lincoln.

KOLTERMAN: Mark Kolterman, District 24, Seward, York, and Polk Counties.

VARGAS: Tony Vargas, District 7, downtown and south Omaha.

DORN: Myron Dorn, District 30, Gage County and southeast Lancaster.

STINNER: Assisting the committee today is Brittny Sturek, our committee clerk, and to my left is our fiscal analyst, Nikki Swope. For safety of our committee members, staff, pages, and public, we ask those attending our hearing to abide by the following. Submission of written testimony will only be accepted between 8:30 and 9:30 in the respective hearing room where the bill will be heard later that day. Individuals must present their written testimony in person during this time frame and sign and submit written testimony record at the time of submission on the day of the hearing of the bill. Individuals with disabilities can select to have someone else present that written testimony. Due to social distancing requirements, seating in the hearing room is limited. We ask that you only enter the hearing room when it is necessary for you to attend the bill hearing in progress. The bills will be taken up in the order posted outside the hearing room. The list will be updated after each hearing to identify which bill is currently being heard. The committee will pause between each bill to allow time for the public to move in and out of the hearing room. We request that everyone utilize the identified entrance and exit doors in the hearing room. We request that you wear a face mask covering while in the hearing room. Testifiers may remove their face covering during testimony to assist the committee members and transcribers in clearly hearing and understanding the testimony. Pages will sanitize the front table and chairs between testifiers. Public hearings for which attendance reaches seating capacity or near capacity, the entrance door will be monitored by the Sergeant-at-Arms, who will allow people to enter the hearing room based upon seating availability. Persons waiting to enter a hearing room are asked to observe social distancing, wear a face covering while waiting in the hallway or outside the building. To better facilitate today's proceedings, I ask that you abide by the following. Please silence or turn off your cell phones. Move to the front row when you are ready to testify. Order of testimony: Introducer, proponents, opponents, neutral, closing. Testifier sign-in sheets: Hand your green sign-in sheet to the committee clerk when you come up to testify. Spell your name for the record before you testify. Be concise. It is my request that you limit your testimony to five minutes. If you will not be testifying at the microphone but want to go on the record as having a position on a bill being heard today, there are white sheets at the entrance where you may leave your name and other pertinent information. These sign-in sheets will become exhibits in the permanent record at the end of today's hearings. We ask that you please limit or eliminate handouts. Written materials may be distributed to the committee members as exhibits only while the testimony is being offered. Hand them to the page for distribution to the committee and staff when you come up to testify. We need 12 copies. If you have written testimony, please do not-- but do not have 12 copies, please raise your hand so the page can make copies for you. With that, we will begin today's hearing with the Department of Banking, Agency 19. Good afternoon.

KELLY LAMMERS: Good afternoon. Feels warmer today. Chairperson Stinner, members of the Appropriations Committee, I am Kelly Lammers, K-e-l-l-y L-a-m-m-e-r-s, director of the Nebraska Department of Banking and Finance. The department appreciates the committee's review of the department's budget request and supports the Governor's recommendations. The department's chartering, licensing, and examination functions can be summarized with our mission to protect and maintain the public confidence in the financial industries of Nebraska, with the ultimate vision to make Nebraska the most trusted financial home for people and business. Agency 19, the Department of Banking and Finance, is cash funded by the entities and professionals it supervises. The agency consists of two divisions: Program 65, the Financial Institutions Division, which examines and supervises state-chartered and licensed financial institutions and entities; and Program 66, the Bureau of Securities, which register securities sold in Nebraska, license industry personnel, examines firms subject to state supervision, and investigates complaints from the public and suspected violations of Nebraska securities laws. The department maintains offices in Lincoln, Kearney, and Omaha. The Financial Institutions Division supervises and licenses banks, credit unions, trust companies, mortgage bankers, money transmitters, installment loan companies, installment sales companies, delayed deposit services, and the single-bank pooled collateral program. With very few exceptions, the financial services industry is experiencing significant growth, with state-chartered bank assets of 14.3 percent. Nebraska licensed mortgage bankers closed $1.4 billion in Nebraska loans from the third quarter of 2020, up 87 percent from a year ago, with the Department of Banking licensing a record number of 4,348 mortgage loan originators, up 11 percent from June. The department imple-- implemented the Nebraska Single Bank Pooled Collateral Program, a public-private administered project in 2020. Since July of 2020, the program has on-boarded 99 public entities and 15 banks. In my conversation with one banker, this solution freed up funding that enabled this one bank to keep in house more than $50 million in Nebraska home loans this past year. As more fully detailed in the department's budget narrative, the department has also been able to maintain full operations and fulfillment of all mission-critical functions throughout the course of the COVID-19 pandemic. Although department offices were never closed during the pandemic, we pivoted quickly to exercise our continuance-of-operations plan and transitioned our workforce to telecommuting and remote working, and both divisions commenced examinations on a remote basis. The Financial Institution Division met all federal depository examination schedules prior to year-end 2020. An additional significant accomplish [SIC] occurred in fourth-quarter 2020, when the Financial Institutions Mortgage Division became accredited by the Conference of State Bank Supervisors. The Securities Bureau supervises both people and companies. Individual registrations are stable to hire, with 114,013 agents of broker-dealers up 1.3 percent, with 4,503 investment advisor reps up 1.8 percent and company registrations are stable to slightly lower, with 1,262 broker dealers 4 percent down, and 1,657-- 57 investment advisors-- up 2 advisors. The Securities Cash Fund adjustment-- transfer adjustment of $2.25 million reflects current and carryover cash balance consideration. I support the Governor's recommendation of future transfer flexibility to occur on such dates and in such amounts as directed, in order to ensure that we are better able to make the transfer defined in law. I am proud to be a part of the dedicated, professional, and efficient team at the Nebraska Department of Banking and Finance. Be happy to answer any questions the committee may have regarding the department's budget request. Thank you.

STINNER: Thank you. Any questions? Senator Dorn.

DORN: About how many people work in your department?

KELLY LAMMERS: Sixty-seven.

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DORN: Sixty-seven? Thank you.

STINNER: Additional questions? Senator Erdman.

ERDMAN: Thank you, Senator Stinner. Thank you for being here. So I read your testimony and listened to what you said. So would you say the bankers had a good year?

KELLY LAMMERS: There have been many headwinds in Nebraska and Nebraska financial institutions have responded. They've had a strong year of supporting their communities. And, yes, their capital is strong, their reserves are adequate, and largely they are profitable.

ERDMAN: Thank you.

STINNER: Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Director Lammers. I, as a banker myself, have been wondering how examinations have gone with COVID. Did you have fewer examinations? Did you suffer a loss of revenues because of disruption?

KELLY LAMMERS: It was an adjustment to pull out the procedure manual for our COOP plan for continuing operations. And once we found that we had all the laptops in place, we had the ability to generate the report of examination offsite, and we had previously piloted and tested that program years previous, the-- the heavy lift was to call bankers and ask if they would participate, if they would scan information that examiners found needed. And as a result of that, while there was a momentary pause of a few months before we caught our breath, if you will, we were able to move forward and we met all of the 18-month standard examination deadlines as federally mandated. So by year-end, we-- we did the prescribed amount of examinations in the prescribed time.

CLEMENTS: And department revenues are stable, not-- didn't drop off?

KELLY LAMMERS: No. Because of billable time, even though the examination was conducted remotely, the examiner is able to identify the amount of time that was applicable to a specific examination. And we're-- we're confident that we're able to deliver the quality product that the exam has exper-- the bank has experienced in the past, in the same amount of time, with actually some significant growth in some financial institutions this year.

CLEMENTS: Thank you.

KELLY LAMMERS: Thank you,

STINNER: Senator Hilkemann.

HILKEMANN: Yeah. So you're the new Mark Quandahl?

KELLY LAMMERS: Yes, sir.

HILKEMANN: OK, thank you.

STINNER: Any additional questions? Is there anything that you see on the horizon, like cryptocurrency? Are you prepared for examinations and any-- any kind of new-- new legislation that might be proposed?

KELLY LAMMERS: There are a number of exuberant markets abounding. Currently, the department licenses money transmitters. Money transmitters on occasion use virtual currency in order to deliver their-- their product as agreed upon. The department has a call report process in place and we are already tracking that type of movement. It is increasing. At the same time, it-- it is not the majority of money transferred, if you will. So with that, most certainly banking has always been an issue of delivering what the customer wants as fast as the customer can possibly get it. If moving money faster is part of the conversation, that is something that the department will look at, at the time that it is appropriate. At this point in time, we are looking at that within the money transmitter license.

STINNER: OK, very good. Any additional questions? We were pretty easy on you. This is your maiden voyage. Congratulations, by the way, and--

KELLY LAMMERS: Thank you.

STINNER: --thank you for your testimony. Any additional proponents? Seeing none, any opponents? Seeing none, anyone in the neutral capacity? Seeing none, that concludes our hearing of Agency 19, Department of Banking. We will now hear Agency 22, Department of Insurance.

BRUCE RAMGE: Good afternoon, Chairman Stinner--

STINNER: Good afternoon.

BRUCE RAMGE: --and members of the Appropriations Committee. My name is Bruce Ramge, spelled B-r-u-c-e R-a-m-g-e, and I'm the director of the Nebraska Department of Insurance. I'm here today in support of the Governor's budget recommendations for the department. The Department of Insurance is a state agency tasked with regulating insurance in the state of Nebraska. The department has a number of areas of focus, including the licensure of insurance producers, agents, and brokers, the financial regulation of insurance companies domiciled in the state of Nebraska, and the market regulation of both insurance producers and insurance companies doing business in Nebraska. The department is also heavily involved in the ever-changing arena of health insurance and has other miscellaneous responsibilities. The focus of the department is on protecting policyholders, maintaining a fair regulatory environment, creating a competitive marketplace for insurers and their customers, and growing Nebraska by attracting insurers to domesticate to Nebraska. In this last category, the department and our economic development partners have had some great success in the past with the domestication of large insurers such as Pacific Life, Aflac, Torchmark, the AMERISAFE group, MetLife Tower, the First American Title Insurance Company. Since the last-- department's last budget hearing, several additional insurers have redomiciled to Nebraska, including, among others, Tier One Insurance Company, and five companies within the GEICO family: Government Employees Insurance Company, GEICO Casualty Company, GEICO general insurance company, GEICO Indemnity Company, and GEICO Marine Insurance Company. These companies have joined an already robust domestic industry of long-time Nebraska insurers such as Mutual of Omaha, Berkshire Hathaway, Assurity, Physicians Mutual, Blue Cross Blue Shield of Nebraska, Ameritas, Woodmen of the World, Great West Casualty, and Farmers Mutual of Nebraska, among others. These insurers and other parts of the insurance industry have a significant impact on the Nebraska economy. The insurance industry is the second-largest industry in Nebraska, behind only agriculture, bringing jobs and economic opportunities to the state. Nebraska has the second-highest insurance job concentration in the nation, with 89 percent more jobs than would be expected for a state with Nebraska's population. The Nebraska insurance industry is a high-wage industry helping to retain young

Nebraskans and attract new Nebraskans. The insurance industry sector continues to be an ideal target for growth in Nebraska, and the department continues to seek out new companies. Currently, Nebraska domestic insurance industry ranks third nationally in assets under management and first in the nation in surplus. Premiums written in the first three quarters of 2020 were equal to $45.1 billion, ranking third in the nation. A number of factors play into why insurers desire to be domiciled in Nebraska, but perhaps most important, that over the years the Governors, the Legislatures, and this committee have done a fantastic job of ensuring that the Department of Insurance has adequate staff and resources to foster the growth of and properly regulate the insurance industry in Nebraska. The department has maintained a fiscally conservative approach. The department further works to decrease spending and increase efficiencies by leveraging technology and eliminating redundancies. Participation in the Lean Six Sigma program through Administrative Services' Center for Operational Excellence has provided opportunities for the department to find efficiencies in operations while allowing for better customer service. The onset of the COVID-19 pandemic caused the department to con-- implement wider work-from-home capabilities, the usage of virtual-- virtual private networks and virtual media platforms, allowing for increased flexibility of some operations. I believe the budget, as proposed by the Governor and adjusted by the committee, will allow the Department of Insurance to continue its duties and responsibilities in an effective manner. I appreciate this opportunity to discuss the department's budget and would be happy to answer any questions you might have.

STINNER: Thank you. I'd like to be the first to thank you for your service and--

BRUCE RAMGE: Thank you.

STINNER: Yeah. Anyhow, questions? Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Director Ramge.

BRUCE RAMGE: Thank you.

CLEMENTS: Thank you for your service. You're talking about factors why insurance-- insurers come to Nebraska.

BRUCE RAMGE: Yes.

CLEMENTS: I didn't-- not-- not sure I got very specific. Could you be more specific?

BRUCE RAMGE: Sure. There are a number of factors. One is our really favorable premium tax climate. Nearly every state has retaliatory taxes. So if they domesticate in a state that has a high premium tax, they have to pay that same higher rate in all of the states where they do business. So it's much to their economic advantage to be here where our-- our rates are relatively low. And I believe they like the access to the Legislature with the Unicameral process and the openness, you know, of the Legislature and the openness of the Department of Insurance and the administration. I think it's-- over time, it has just generated a good business climate for-- for the insurance industry.

CLEMENTS: Thank you.

BRUCE RAMGE: Yes.

STINNER: Additional questions? I have a question. You say that you want to support the Governor's budget recommendations, and I think our committee modified what was being transferred in the cash fund balance. I believe we modified to $8 million. Is that my recollection?

BRUCE RAMGE: Yes. The-- the transfers from the Insurance Cash Fund to the General Fund in previous years was higher, but with the assistance of-- of the Legislature's fiscal analyst and our budget officer, they determined that those higher amounts were not sustainable over time, and so that is why that transfer number has dropped down.

STINNER: Boy, it was helpful when we had revenue shortfalls.

BRUCE RAMGE: Good.

STINNER: So I thank you for that.

BRUCE RAMGE: Good.

STINNER: And I think it's-- the committee discussed it and felt like we ought to start building that back up and building a cushion. So--

BRUCE RAMGE: Great.

STINNER: --that was why we modified it, so--

BRUCE RAMGE: Good.

STINNER: And do you support the modification?

BRUCE RAMGE: I do support the modification, yes.

STINNER: OK. Any additional questions? Seeing none, thank you.

BRUCE RAMGE: Thank you.

STINNER: Any additional proponents?

ROBERT BELL: Good afternoon.

STINNER: Good afternoon.

ROBERT BELL: Chairman Stinner and members of the Appropriations Committee, my name is Robert M. Bell, spelled R-o-b-e-r-t, middle initial M., last name spelled B-e-l-l. I am the executive director and registered lobbyist for the Nebraska Insurance Federation. The Nebraska Insurance Federation is the primary trade association of insurance companies domiciled in or with a significant economic presence in Nebraska. Currently, the Federation consists of 29 member companies and 8 associate members, representing a spectrum of insurance companies from small insurers to Fortune 500 companies. Members write all lines of insurance. One of the goals of the federation is to promote the concepts and importance of insurance products to policymakers and the public. Nebraska insurers provide high-value, quality insurance products to Nebraskans that help protect Nebraskans during difficult times. Not only do Nebraska insurers provide protections to Nebraskans, but companies also provide high-paying jobs. Members of the Nebraska Insurance Federation alone provide well over 14,000 jobs to the Nebraska economy. Insurance is important to the economy of Nebraska and Nebraska has, as you just heard, become known as a very attractive home for insurance companies for a number of reasons, including the relative ease of working with the Legislature on needed laws, the reputation of the Nebraska Department of Insurance, and the premium tax rate. These factors are important because of the nature of how insurance is regulated in the United States. Insurance is a state-based regulatory system that relies on state departments of insurance accreditation through the National Association of Insurance Commissioners, which is also referred to as the NAIC. During the 1980s, a rash of insurance company insolvency spurred the NAIC to develop financial regulation standards and accreditation and the accreditation program to certify that the various insurance departments across the nation meet and continue to meet a variety of legal, financial, and organizational standards. Financial examinations done by an accredited insurance department are accepted by other accredited jurisdictions in the United States. To bring the discussion back to Nebraska, an accredited Nebraska Department of Insurance means that financial exams completed by the Nebraska Department on federation member companies will be accepted by all members of the NAIC. Without accreditation, federation members would be subject to the time and expense of financial examinations by other jurisdictions; therefore, the Nebraska Insurance Federation has a vested in-- interest in the accreditation by-- of the Department of Insurance. Accreditation by the NAIC as determined by peer review, meaning that other state regulators determine whether or not Nebraska has met the appropriate standards. These standards include not only appropriate laws but also appropriate staffing. Via the good works of this committee, the Legislature as a whole, the administration, and, of course, the director and the department, Nebraska remains accredited, so thank you from the members of the Nebraska Insurance Federation. According to the members of the federation, one of the major differences between Nebraska-- the Nebraska department and other state insurance departments is the approachability and responsiveness of the staff. When companies are looking for a new state home, Nebraska stands out in this regard. If insurer has a concern or an issue, companies are able to access the department staff, whether an examiner, an actuary, an attorney, or the director himself. This is not to say that the Nebraska department does not fulfill its mission to protect a policyholder. The department is tough but fair when insurance companies need to be held accountable. After reviewing the department's initial request, Governor Ricketts' recommended budget, and the preliminary recommendations of the committee, the Insurance Federation sees no issues with the department's budget, so I have no ask today and again would like to say thank you to the committee. Looking to the future, the domestic industry would like to bring just a couple of items to the committee's attention. As more insurance companies domicile in Nebraska, the domestic industry wants to make sure that the domestic-- the department's resources and staff are adequate to meet the growing demands of its time. The domestic industry wants to avoid the staff becoming so overwhelmed that they cannot maintain the responsiveness that makes the department so unique. With that in mind, I would note that that committee's recommendation, as Chairman Stinner pointed out, has reduced the Governor's cash fund transfer by $2.5 million annually. We feel like this is a great-- a good move that will ensure a stronger agency into the future. And second, the federation notes that both the department request and the Governor recommendation did include a conversion of an analyst to an actuary, and the members of the federation do support such a change, so just want to thank you for the opportunity to testify. Thank you.

STINNER: Thank you. Questions? Oh, Senator Kolterman.

KOLTERMAN: Thank you, Senator Stinner. Welcome, Robert.

ROBERT BELL: Thank you, Senator.

KOLTERMAN: So you work with a lot of-- you work with all of the domesticated companies in the state.

ROBERT BELL: Right, 29 of them, at least.

KOLTERMAN: Twenty-nine of them. Of those 29, are there subsidiaries or those 29 that are looking to redomicile?

ROBERT BELL: Well, yeah, and so the numbers of the federation don't necessarily match up with the numbers of the overall numbers of insurance companies domesticated in Nebraska. So as an example, the Berkshire Hathaway companies, there's only a couple of them that are members of the federation, although there may be, I think, 20-plus Berkshire Hathaway Insurance Companies domesticated in Nebraska, so we don't-- we don't double charge them for their fees to be a member of the trade association. They're still getting the same information.

KOLTERMAN: You're so generous. You're so generous.

ROBERT BELL: [LAUGH] Thank you. But, yeah, that-- and we also represent insurance companies that have a lot of jobs in Nebraska, so there are some companies, say State Farm or UnitedHealthcare, that are members of the federation that are actually not domestic companies but have hundreds of jobs in Nebraska.

KOLTERMAN: So as-- as-- you've-- you've worked for both the department and now the federation.

ROBERT BELL: Correct.

KOLTERMAN: As indicated by Director Ramge before, we have a very good environment in the state of Nebraska. Do you-- and-- and I noticed in your testimony you are concerned about-- or your-- your members are concerned a little bit about the fact that we could get overwhelmed if we continue to have the growth that we're having. Having worked at the department, do you feel like it is staffed adequately? And I know it's very well respected in the country, so do-- are you thinking that maybe we ought to be looking at that going forward?

ROBERT BELL: Well, I say that just to kind of lay foundation for the future. If-- if, let's say, State Farm decided to re domesticate the state of Nebraska and suddenly you have one of the largest insurance companies that are going to require the full attention of the Nebraska Department of Insurance, then you-- at that point, that's where you get concerned about being overwhelmed, right, that then maybe it's time to come ask for an additional examiner or an attorney or-- or whatever the case is, so that they can-- they can do the work that is necessary for them to do. Fortunately, I mean, it's a cash-funded the agency. Those-- those examinations are paid for by insurance companies, and so it's not so much that we're-- we would be taking money from the General Fund, so to speak. And I'm already telling you things you already know, probably, so I apologize about that, but the-- we just wanted to make sure they have-- have the staff. Right now, you know, I-- I trust the director to-- they are adequately staffed. I felt like we were adequately staffed when-- when I was an employee of the Department of Insurance. Some days I felt overwhelmed, especially when the Legislature was in session, but not-- I-- they-- they're-- they are well staffed right now.

KOLTERMAN: And I should have asked Director Ramge this, but with-- with the advent of bringing on five new companies through the Berkshire Hathaway/GEICO situation, is that the kind of thing you were alluding to?

ROBERT BELL: Yeah. I mean, those are the kinds of things. I think there's an accumulation, right? So just because you add on one company or even five companies, that may-- that might not be as big of a deal, especially if it's within the Berkshire family of companies and-- and the financial examinations are maybe occurring within that holding company already, right? But, you know, at some point, maybe it's half a person, you know, over time, another half-person, another half-person, you get enough companies that maybe it's time to add another examiner. And again, I'm not asking for another examiner or even saying the federation is-- is asking for that. Again, we look for the-- the department for that guidance. But that's just something I want to make sure that the committee is aware of on-- on these type of financial regulatory-type of-- of agencies, so--

KOLTERMAN: And just in conclusion, I would probably-- this is just a statement, but because we're so well reg-- regulated and so well appreciated, if we do continue to grow, it brings a lot of revenue to this state and it behooves us to make sure that it is operating efficiently and cost effectively.

ROBERT BELL: Agreed. Agreed. I-- I'm-- I'm always struck by the example of Pacific Life. So Pacific Life is a-- is a company that has its headquarters in Newport Beach, California, in Orange County, California, and they redomesticated their company to Nebraska a decade and a half ago, 15, 20 years ago. And-- and at that time, the department requested that they bring a number of jobs. I believe the number was 50 or something like that, so 50 jobs ended up in Nebraska because of it. And what they discovered is that they like Nebraska, right? Their employees like Nebraska. And so the numbers of jobs that they have had in the state has steadily grown. If you've been to Aksarben lately, you have seen they have a new building in Aksarben. Unfortunately, it's not populated right now because of COVID and they're working remote, but it will be populated again in the future. And I think they have-- I-- I don't remember the exact number, but we're in the hundreds, you know, of-- of Pacific Life employees. We're not talking about just mailroom-type of employees. We're talking about actuaries. There's an actuary department now in Omaha. There's an attorney and-- division of attorneys there. I-- I was-- there was a bill up in the Banking, Commerce and Insurance Committee and Pacific Life was concerned-- or was in favor of, and so they sent one of their attorneys from Omaha down. And I-- I had not met this individual before and I asked him what-- what-- you know, what was his background. We were having lunch before the hearing. And he formed the legal division in-- in Omaha. He came from Orange County and moved to Omaha with his family. And he said, you know, the climate's different, but I-- you know, he's like, the-- the money's good. The cost of living is low. He said he had an associate that-- that still worked for him in Newport Beach that had bought a condo for $600,000 that wouldn't even fit in his-- I mean, would be smaller than this guy's basement in Elkhorn. Right? So those-- these companies are bringing in economic activity beyond just, you know, the various corporate taxes that they may pay. But they're bringing in those employees that are paying income tax, they're paying property tax, they're paying sales tax as well, and bringing their families here and hopefully building, again, a foundation of-- of new Nebraskans that-- that didn't exist before. So that example always kind of strikes home with me, related to Pacific Life, so I appreciate the question.

KOLTERMAN: Thank you.

STINNER: Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Mr. Bell. My question is, have-- how are your companies found the department to work with when they're asking for rate increases? I know long-term care has been an issue, individual health insurance, and maybe property insurance now with the storms we had in 2019.

ROBERT BELL: Sure.

CLEMENTS: Have you-- have they found the request for rate increases to be fairly accepted?

ROBERT BELL: I mean, I think the department-- the Nebraska department is fair. What-- what did we see in Lincoln? Long-term care, where long--term care has gotten in-- gotten in issues in some of the larger, more populated states is that their insurance departments have not allowed rate increases and that has called-- caused insolvency. Some of the largest insolvencies in the history of the United States have-- have-- you know, you can go back and look, you know, if you didn't-- if Pennsylvania, as an example, maybe didn't allow a rate increase in the year 2000 and suddenly, you know, claims were outpacing premiums and you-- you cause an insurance company-- company to falter. That has not been the case in the state of Nebraska. I think they're reasonable. I think there's pushback sometimes, as there should be, between a regulator and an insurance company and a-- you know, if-- if the-- the company has done something or has proposed a rate that is too low or too high, they're going to get some pushback from the department. I mean, the one thing you have to look out for, for an insurance company, is almost sometimes protection from itself. You know, we don't want to set that rate too low where we could cause a financial problem down the road, so-- but they've been fair.

CLEMENTS: OK. Thank you.

ROBERT BELL: You're welcome.

STINNER: Any additional questions? Seeing none, thank you.

ROBERT BELL: You're welcome.

STINNER: Any additional proponents? Seeing none, any opponents? Seeing none, anyone in the neutral capacity? Seeing none, that concludes our hearing on Agency 22, Department of Insurance. We'll now open on the Agency 87, Political Accountability Disclosure Commission. Good afternoon.

FRANK DALEY: Good afternoon, Chairman Stinner and members of the Appropriations Committee. My name is Frank Daley, F-r-a-n-k D-a-l-e-y. I serve as the executive director of the Nebraska Accountability and Disclosure Commission. I'm here today representing the commission. The commission is charged with the administration and-- and enforcement of the campaign finance laws applicable to candidates for state and local office, the governmental ethics laws applicable to public officials and public employees on the state and local level, and the laws applicable to lobbyists and their principals. We've reviewed the budget proposal of the committee. I've got to say, we are content with your preliminary numbers and appreciate the consideration you've shown us. So I'll just leave it at that and thank you for the opportunity to appear before you today.

STINNER: Very good. Any questions? Senator Kolterman.

KOLTERMAN: Yeah, I just have one question, Director Daley. Why is it you didn't tell them where you're from?

FRANK DALEY: I can. [LAUGH] I'm-- I'm from Seward, Nebraska, and so that makes me Senator Kolterman's constituent. [LAUGHTER]

KOLTERMAN: Thank you.

STINNER: Oh, my God. Anyhow, any additional questions? Seeing none, thank you for coming in.

FRANK DALEY: Thank you very much, committee members.

STINNER: Any additional proponents? Seeing none, any opponents? Seeing none, anyone in the neutral capacity? Seeing none, that concludes our hearing on Agency 87, Political Accounting [SIC] Disclosure Commission. We'll now open on Agency 65, Department of Administrative Services. Good afternoon.

JASON JACKSON: I have the suspicion you guys won't be as easy on me as you were on Frank, but that's OK. Wonderful to see everybody. Mr. Chairman, so long as everybody can see me OK, it's my preference to leave my mask on if--

STINNER: That's fine.

JASON JACKSON: OK. If it's OK with you, Mr. Chair, I'll--

STINNER: It's OK with me. I know that there's a couple members that are--

JASON JACKSON: Oh, understood.

STINNER: --a little hard to hear, but--

JASON JACKSON: OK.

STINNER: --we'll-- we'll try it out. If it's a problem, we'll let you know.

JASON JACKSON: OK, sounds good. All right. Good afternoon, Chairman Stinner and members of the committee. Thank you for having me today. My name is Jason Jackson, J-a-s-o-n J-a-c-k-s-o-n. I'm the director of the Department of Administrative Services and I'm here in support of Governor Ricketts' biennial budget recommendation. The Department of Administrative Services is responsible for providing support service functions for state agencies and many of the day-to-day operations of state government. As a result, we are in the unique position of being able to facilitate and implement processes and procedures to promote effective, efficient, and customer-focused state government while reducing cost. Just conversationally, we provide a lot of the back-office service functions that support our sister agencies that are serving Nebraskans. To give you a sense of the scale of a lot of the work we do, our State HR and State Personnel Divisions process 100,000 applications every year to work in state government and hire about 5,000 people. We insure about 30,000 people in our state wellness plans. We manage 600 contracts on behalf of the state, draw down on $2.5 billion in federal funding, process over 430,000 paychecks to state teammates, and manage over 500,000 square feet of commercial real estate. So from a run-the-business perspective, that's a lot of what we do, is the back-office business functions of state government. This obviously has been a very trying year for everybody. I'm particularly proud of the way the team has shown up in response to the COVID-19 pandemic. One of the things that really differentiates our agency is our operational proficiency. And so in many ways, we were relied upon in terms of supporting public health and DHHS in the establishment of Test Nebraska and the procurement of PPE to benefit over 1,500 beneficiaries across the state, the establishment of our business continuity programs that served our sister agencies, and many more. So that's a little bit about what we do. Returning to what's before this committee today in terms of our budget testimony, what I wanted to share with you all is just the emphasis that our department over the past two years has had on two areas of focus that flow directly from concerns that this committee expressed when I was in front of you two years ago. The first of those related to our fund balances, and the second of which was our rates and assessments. So first of all, with respect to the fund balances, it was clear to me, based on a lot of the feedback that I heard from you both in the committee context, as well as in private conversations, that it seemed like it was a bit of a black box in terms of how DAS was actually managing its fund balances and assessing what a healthy fund balance is for our various revolving fund programs. In response to that, we consulted with our financial experts in State Accounting and established a policy for all of our revolving funds that our fund balances should always sit between 60 days and 6 months of operating spend. We use that, not as a hard-and-fast rule but as an aid to judgment, so that we can meet our short-term obligations, so hence the floor of 60 days, but also have a guidepost, whereas if those five-- fund balances exceed that six-month threshold, that's the point at which we start to ask questions about if our rates are in fact too high and we should be returning more value to our customer agencies. So just-- that's-- and I have confidence that if you look at our fund balances, you'll see that methodology in practice. Secondly, we've provide-- we've really analyzed our rates and made that an area of focus. That's how DAS can give value back to the taxpayer, is by reducing our rates wherever possible, by getting as efficient as we can in our operations. Our proposed budget for the next biennium lowers nine rates and assessments for a total savings below the current user base of $5.4 million. In some of our program areas, we have elected not to accept the enterprise benefit and salary issues, as we have been able to absorb those increases through our normal operations. Specific examples of our rate reductions include: in Materiel Division, a reduction in our purchasing assessment by more than 14 percent; a reduction in our surplus property administration charge by 9 percent; a reduction in our copy/mail service rates by 5 percent; a reduction in State Accounting of our assessment by 2 percent-- that's over and above and a reduction of 6.5 percent that was made in the current fiscal year; a reduction in Transportation Services Bureau of our vehicle lease rate by 6.67 percent; a reduction of our SOS surcharge rate in State Personnel-- this is our temporary employment program-- of approximately 1 percent; and a-- in our Task Force Building Renewal, a reduction of our rent depreciation-- depreciation surcharge of 14 percent; and finally, on State Building Division, a reduction in our rental rates of 12 percent. That, in and of itself, is a $3 million savings to our customers. And again, in totality, all of those rate reductions result in about $5.4 million in savings for our customer agencies. I'd like to briefly note, I would offer one deviation from the Governor's recommendation, which is keeping the director's office appropriation intact. That's consistent with where the committee's initial recommendation is, and so that is very much appreciated. I am requesting that the committee reinstate the Governor's recommendation of an additional $2.75 million in appropriation for State Building Division. The state's real estate strategy focuses on three components, the first of which is reducing commercial real estate footprint, and I'll talk at greater length about that momentarily; secondly, it's about collocating like work so our teammates doing similar types of work and functions are supported by a wider team of people doing that same work; and thirdly, by creating one-stop shops for our customers so it's easy and convenient for our citizens to get customer service. Collectively, these priorities inform our budget request, which would go towards approximately $1 million in anticipated pass-through lease costs; $1-25 million towards building maintenance increases; and $500,000 in maintenance contingencies. Without these funds, DAS State Building Division cannot ensure that our customer agencies will have adequate facility infrastructure to support their programs, and agencies currently leasing commercial space will be at a significant risk of business disruption. I'm going to pause here because I do have a visual aid that I think aids kind of what we're talking about. So if it's convenient for all of you, I would refer you to the slide that's labeled State Building Division. And specifically, this goes to our strategy of minimizing commercial real estate space. I'll draw your attention to the graph in the upper right, which has the market averages versus state lease space. Within our state office buildings, with the rate reductions that we've talked about, we lease space to our customer agencies at $14.35 a square foot. If you look at the market rates for both Omaha and Lincoln, you see that commercial space is renting on average significantly higher than that. So that's why we try to maximize state office space so that we can be as efficient as possible for taxpayer dollars. I'll draw your attention now to that graph on the left, which lists out all of our state office buildings, and what you can see from that is that we are basically at capacity in all of our state office buildings. So we're using our state space as efficiently as we can, with the possible exception of the Omaha State Office Building, which is at 80 percent capacity. But all of the rest of them are in the 90s in terms of their percent of occupancy. So what that means for our state real estate portfolio is to support our customer agencies, we need to leverage commercial real estate space. And then I'll draw your attention to the graph on the bottom right, which shows that fully 22 percent of our entire portfolio has leases that are expiring in the next biennium. So what our budget recommendation builds into it is a presumption that those leases will need to be renewed at current market rates, and that is largely what informs that budget ask. Finally, I want to emphasize the need for an increase in revolving fund appropriation for risk management state insurance and workers' compensation programs. Both of these increases are due to factors outside our internal control and the increasing costs for claims for both programs flow-- flow from the increased cost of premiums of our excess coverage and our increased liabilities. Basically, just conversationally, our Risk Management Division is an insurance business that self-insures state government. We insure losses both in workers' comp and physical damage and other types of liabilities, and then we have excess carrier coverage for catastrophic losses. Our premiums that the state pays to our third-party provider for excess carrier coverage is increasing-- is continuing to go up. And what's more is claims against the state over the past several years have exceeded the premiums that we've collected. So our premiums are analogous-- our rates are analogous to a premium if you're an insurance company. We inform our rates based on actuarial studies from our third-party actuary, and then we attempt to use that to manage how we actually build the fund to cover the anticipated losses in the coming biennium. So as a final visual aid, I'll refer you to this graphic that says Risk Management, and what this shows you is, on the far left, the fund balance as of January 2015 and then the current fund balance for both the state insurance program as well as the workers' comp program on the far right. So you can see that basically in the two preceding bienniums our-- the state's actual losses exceeded the premiums that we collected from our customer agencies. As a consequence, these funds are now depleted to the point that in the absence of the rate increase, which we've already published, but also the committee giving us the appropriation to settle out the state's claims, the state would be at the risk of, in the second year of the biennium, not actually being able to settle and pay claims against the state if these funds were in fact to be exhausted, if the losses are what we anticipate they might be. That concludes my prepared testimony. I will just briefly note, administratively within the Ricketts administration, the Division of the Office of the Chief

Information Officer and the Division of the Capitol Commissioner are really administered as two separate cabinet agencies. My peers on the Governor's cabinet, Ed Toner and Bob Ripley, respectfully, will appear after me to testify on their individual components of the budget. But with that, Mr. Chairman, I appreciate the time and I'm happy to answer any questions the committee has.

STINNER: Any questions? Senator Erdman.

ERDMAN: Thank you, Senator Stinner. Thank you for being here today, Director Jackson. So I-- I'm looking at your graph on the real estate.

JASON JACKSON: Yes.

ERDMAN: I have a solution for you. There is 46,000 square feet of office space in Sidney, Nebraska, that could be leased for far less than that. I have a group of investors that would buy that facility and lease it to the state at a significant discount to what you're getting here, 46,000 square feet. That's an opportunity for us to place a lot of people in a very great location at a lot of less cost. So we need to talk about that. That's an opportunity for us.

JASON JACKSON: If I may reflect on that observation?

ERDMAN: Yes, you can.

JASON JACKSON: That's absolutely a piece of the conversations we have is-- now to some degree, you know, our decisions need to flow from agency decisions about their operations and where their operations need to be located. But we always encourage agencies to be thinking about other places in which they may locate their teams and where the costs, particularly in terms of infrastructure and real estate, might be advantageous, not to mention service to the community. So to think-- in thinking about our real estate portfolio outside of the Omaha and Lincoln metro is absolutely a part-- when we show up as a consultant partner to the agencies we support, that's absolutely part of the conversation. At the end of the day, what we need to do, though, is support their operational choices and that's where this recommendation flows from.

ERDMAN: So if you need to talk to those people, let me know and I'll get you in touch with them.

JASON JACKSON: Sounds good, sir. Be happy to. Thank you.

STINNER: Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Mr. Jackson. What agencies are growing and needing more space? Is there particular agencies that you see are short-- short of space?

JASON JACKSON: Yeah, so there are a number of agencies that are growing if we're talking about headcount specifically. So DHHS is-- is growing, particularly as you see their public health response to the pandemic be employed. I think what remains to be seen is whether or not that's temporary or an enduring feature of their operation. Similarly, you see with the Department of Labor, their footprint is growing to support the processing of unemployment claims and the increased strain that's being placed upon them operationally. Then we've had success stories in other agencies just related to actually getting to their budgeted capacity, from a headcount perspective, to include Corrections and Veterans' Affairs. So those are some that, you know, if I'm, just as an HR practitioner, if I'm looking at pure headcount numbers, those are four agencies I'd identify that are experiencing growth. What I would note in response to your question, Senator, though, is that this plan that you're seeing here does not include any growth in square footage. So, in fact, what we intend to execute over the next biennium is lease renewals that will result in a net reduction of total square footage in the portfolio, particularly as we encourage agencies to increasingly flex-- a flexible work style and other types of remote work that make it more efficient for us to organize around the work from an infrastructure perspective. We expect to see that employed to a greater degree. So this plan does not contemplate growing our footprint. It merely contemplates renewing our existing leaseholds, if that makes sense.

CLEMENTS: Yeah, that was going to be my next point was with remote working, that maybe, first of all, lease rates hopefully would be coming down, but then also the need for space is certainly going to be less, isn't it not?

JASON JACKSON: I-- I would hope so. I think that remains to be seen. I will just spot for you a pilot that we currently have in flight at Administrative Services. You-- our existing footprint in the 1526 building across the street has occupancy on the third floor, the second floor, and the first floor. We're completely consolidating down to the first floor by embracing a flexible work style and emblaze-- embracing more flexible types of furniture and those types of accompaniments that enable flexibility, drop-in spaces, those types of things, unassigned spaces, as opposed to every person, individual having an assigned seat. We're optimistic that if that pilot is a success, we can showcase that to other agencies and they can embrace a similar strategy. But at this point, that's unproven. That is where industry is going. That's where benchmarking says is best practice. But we also know that we have to prove the concept before we can compel other agencies to embrace the same strategy. With respect to what that means for market rates in Lincoln and Omaha, basically what this recommendation represents is our best judgment based on the existing rate. We felt like that was the most objective and fair way to make this recommendation and also the most, I guess, mitigating-risk recommendation, because I wouldn't want to make a recommendation to the committee that was insufficient and then find myself in a position where we have a business continuity issue with a program because we're not able to re-- renew a lease. I'd also, just as a final note-- and I know this isn't lost on the committee, but it might be lost on other-- other observers. I'm not asking for funding with respect to the Building Division request, only the appropriation authorization. So this spend would be pass-through spend flowing from the operational expenses of agencies that would have been authorized, that spend, through your normal budget deliberations.

CLEMENTS: Thank you.

JASON JACKSON: Thank you.

STINNER: Additional questions? Senator Dorn.

DORN: Thank you, Chairman Stinner. And thank you for being here. If I understood you right, you're-- you're telling or presenting information that our occupancy rates are high. Through the COVID issue, what have you seen and what do you expect, I guess, in the next couple of years from now? Part of the trend has been work from home.

JASON JACKSON: Right.

DORN: How-- I guess, how is your department looking at that?

JASON JACKSON: Yeah, great question, and it relates closely to Senator Clements' previous question, so I'll just elaborate a little bit. Specifically, with respect to the COVID response, what we did was, first and foremost, we recognized that we needed to continue to provide services for Nebraskans. I mean, in a public health emergency or any type of emergency, that's when Nebraskans expect their government to be there working for them, and so we placed an emphasis on business continuity. Within that framework, we flexed to support agencies so they could continue their critical functions but also mitigate risk to state teammates. Those strategies included a lot of things to include de-densifying the workplace. In many instances, we went down to as much as 50 percent occupancy and a lot of programs embraced flexible schedules. Ed Toner, with the Office of the OCIO, will testify behind me and he could speak to the lengths that the OCIO went through to enable technology solutions that enabled remote work and flexible work. And all of that was in service to coming alongside our agencies so that they could provide a safe work environment for our teammates, reduce the risk of spread of the disease in the workplace, but also maintain critical services for Nebraskans. And then what we've done is we've basically kind of flexed up and flexed down our occupancy rate, in terms of our workforce, based on, you know, what we're seeing in the actual community in terms of the degree of risk. So, you know, as the most recent example, when the state went to red in November, we ratcheted back down to a 50 percent occupancy rate in our teammate-- from a teammate perspective. Other steps we've taken include, you know, our Building Division. Again, these are some of the unsung heroes of the work that we do in state government that I know you all are familiar with, but many may not, but, you know, we're providing all the janitorial services for state agencies. And so if there's somebody who suffers from the illness in the workplace, it's incumbent upon our team to make sure that we're getting in there and making sure that those spaces are clean and healthy for the rest of the team. In terms of what that means for the future of work, that's a big topic of conversation among my peers across the 50 states in terms of how this informs our future real estate strategy. I'm hopeful that-- well, I'll speak from an Administrative Services perspective. I think we've proved the concept of being able to deliver on our business objectives in a flexible, more remote work style by minimizing customer disruption but still providing critical services. That may not be true of every agency, you know, so every agency is going to have unique operational requirements, a veterans' affairs or a corrections or a state patrol, and those types of agencies obviously can't-- don't have that same degree of flexibility. But for programs that are predominantly working in an office type of environment, I think we have proven that concept. I hope to provide further evidence of that proof through this pilot that I just briefed you on in terms of what we're doing at DAS by leveraging different types of furnishings, floor plan configurations and workspaces, and technology solutions. And if we can prove that concept in Administrative Services over the next two years, I'll be in a position to evangelize that strategy for other agencies. And as we think about things like lease renewals, we can have conversations like, hey, have you thought about reducing the percentage of your teammates in the State Office Building that are in an assigned status? We coud do different types of a floor plan arrangement that creates more drop-in spaces. And then as we-- rather than renewing this lease over here, we could just absorb those folks into our existing footprint at the State Office Building, as one hypothetical example about how that might play out long term. I just think it's premature for us to declare that as a strategy for the state and what I'm attempting to do is build a budget recommendation that allows us to support our customers regardless of their strategic preferences.

DORN: Thank you.

JASON JACKSON: Yep.

STINNER: I have some questions. The 2.75 you're asking us to replace in the budget, the million dollars of anticipated pass-through, I understood you saying that that is just existing leases that are now coming due have an escalator clause to it?

JASON JACKSON: Correct.

STINNER: And so that's that. One-point-two-five-million dollars toward building maintenance--

JASON JACKSON: Correct.

Does not include written testimony submitted prior to the public hearing per our COVID-19 response protocol

STINNER: --is that ongoing, one time, or--

JASON JACKSON: All of the above. So we have both ongoing maintenance and our costs for ongoing maintenance are increasing. As you see, the costs of labor, trades, materials, those things are increasing. What's more is we have deferred maintenance in our portfolio that needs to be accomplished. Representative of the type of work that would be inclusive in this fund, Building Division is responsible for the critical systems infrastructure that supports our data center environment in the 501 building. Our UPS batteries that support all the energy supply in our data center are past service life. Replacing those batteries is a $500,000 expense. So in many instances, we're talking about regular maintenance or deferred maintenance, but maintenance that's below that of a capital project threshold, but nonetheless is maintenance that is necessary to maintain our building infrastructure in its current condition.

STINNER: But wouldn't you have built that into the existing leases that you have on the 501s and all these other buildings that we own?

JASON JACKSON: Sure. I could build that into my-- to my rate, but again, sir, I need the appropriation so that I can spend it. And so that-- that's where the issue is arising. I'm not asking for more money. We have adequate money. I'm adequately funded. I need that appropriation authorization so that I can meet my customers' needs and respond to their business needs.

STINNER: OK, and I appreciate the fact that you've done some work on the-- the fund balances. They were growing. We had a conversation. I'm glad you took that and--

JASON JACKSON: Yes, sir.

STINNER: And I'm also interested in reducing commercial real estate footprint. That's a noble thing, because what we're trying to do is to at least contain the growth and this is one way to do that. So would you give us an example of how-- how you've done that, when, where, and how?

JASON JACKSON: Sure. So I spoke to you about how we're reducing our footprint in Administrative Services in the 1526 building. That is enabling us to create capacity on the second and third floor of that building. Department of Insurance, and I know you all spoke to Bruce Ramge just earlier this afternoon, is going to move into the second floor of the 1526 building next month. So that'll allow us to end a lease in downtown Lincoln, absorb that agency into state-owned office space, and overall reduce our footprint in terms of total square footage of the portfolio and reduce-- produce an ROI, you know, within the next biennium in terms of, you know, move costs, furniture and those types of things, so net-net, win-win, but-- but yet an early proof point for this strategy, both the flexible work and reducing commercial real estate and trying to create capacity within state office space to absorb some of those expiring leases.

STINNER: OK. Workman's comp claims, your risk manager says that it's going to be $20 million, 2021, however, you're asking for 22 point-- to go up to 22.9, 23. The increase, obviously, is well over 20 percent. What's happening on Workman's Comp? I mean, we-- is this a COVID event, a one-time event or tell me what's going on there?

JASON JACKSON: No, it's not a COVID event. What we are seeing is that both the frequency of workplace injury, as well as the severity of workplace injury across the enterprise, is increasing, or at least it has been for the past five years. One area where we particularly see this arise, just to kind of give context for the committee is, for example, assaults in a correctional environment or vehicular accidents in a State Patrol environment, you know, so those are the types of things that can, you know, lead to often, you know, catastrophic injuries and-- and high liability for the state in terms of workers' comp coverages.

STINNER: So you pass off the extra cost of this to the prison situation since they're the big cause of claims or is there--

JASON JACKSON: I'm not attempting to single out Corrections. I'm just using that as a representative example of where the severity of workplace injury can arise that can contribute to these losses.

STINNER: OK.

JASON JACKSON: And again, what we're attempting to do is basically set our premiums in such a way as to anticipate where the losses will go based on historical patterns, just like any other insurance company would.

STINNER: OK. There is a report that was addressed to you by the Nebraska Auditor of Public Accounts, and in that report, $21 billion in mistakes, and is-- I would like you to start to comment on that, and I'm sure the other members of our committee will also ask questions. So I'll open with that.

JASON JACKSON: OK. I-- I actually appreciate the opportunity to confront that because I think there's a lot of misinformation that I've seen kind of flow through this building that in some ways mischaracterizes that. So, you know, first of all, just contextually, and I know some of you may be subject matter experts, but not everybody is a subject matter expert in what this process is, The comprehensive annual financial report is produced every year by statute, by State Accounting, in partnership with the State Auditor's Office. That's a process that commences basically aggregating agency-level financials at the conclusion of the fiscal year. So this most recent year, fiscal year closes out June 30. You have ancillary expenses that continue beyond the fiscal year to resolve all the financial transactions, and then the heavy work begins, the State Accounting Division in partnership with the Auditor's Office, to aggregate those various financial records into the comprehensive annual financial report. So in terms of the Auditor's findings, I want to stress, didn't identify any misuse, didn't identify any misappropriation. The World-Herald editorial that was recently published characterized it as process mistakes. No, these weren't transactions, so these weren't processes. What these were was tabulation and reporting errors in the context of that comprehensive annual report. To the substance, $21 billion, the auditors arrived at that-- I'll use three examples-- $13 billion of which, a single error, was the over inclusiveness of a comprehensive-- of a consolidated equity fund in the footnote that has us list our rated funds and liabilities. Commingled funds of that type aren't rated. They were over-included in that tabulation, shouldn't have been. That was a $13 billion error. Five billion was a change in the APA's process this year in which they took modifications to the budget summary and financial reconciliation report and basically used the ab-- absolute value of the summation of those changes to arrive at $5 billion. And then finally, $700 million flowed directly from the finding against the Department of Labor for relaxing the standards related to unemployment fund processing where we were-- had an emphasis on getting unemployment relief out the door for Nebraskans in need in response to the pandemic and as a consequence didn't have the same rigor or controls on those fund disbursements as, I guess, accounting procedures would have required. So on net, that's 90 percent of the $21 billion, three errors. Now I don't say that to diminish the findings. I do say it to provide context that we don't have a systemic accounting issue in State Accounting. We take the feedback, as we always do, from the Auditor's report. We have a process improvement initiative in play. I've already spoken to our two largest agencies in terms of financial transactions, our acting director in the Department of Transportation and Dannette-- Dannette Smith at DHHS, and enlisted their commitment to process improvement upstream at the agency level to ensure we have good financial integrity of those agency-level submissions. We're going to dedicate our Center of Operational Excellence to look at the end-to-end process and make necessary improvements in that end-to-end process so we can mitigate against the risk of this happening again. But I would say I have enormous confidence in our central accounting team. The team is led by Phil Olsen, who has over-- when I hired him three years ago to join DAS as our division director for State Accounting, he had previously been in the Auditor's Office for ten years, the four prior years of which were auditing the CAFR report. There is nobody in state government who has more understanding of the CAFR report or the auditing process than Phil Olsen, our administrator of Central Accounting. What's more is just last year, so the CAFR for calendar year 2019, our Accounting Division actually won an-- the Certificate of Achievement for Excellence in Financial Reporting from the Government Financial Officers Association related to the work on the 2019 audit. So this is a strong team. This year was an outlier. I think when the issues identified are placed in context, they reveal an opportunity, but no systemic issues, and we'll work to get those opportunities addressed. I will say that the Central Accounting team executed this CAFR process exactly the same as we have in every year in institutional memory. What was different about this year was, frankly, that the team, in addition to their normal run-the-business responsibilities, was also responding to a pandemic to include the processing of $900 million in federal aid and the creation of a completely new leave type, the Coronavirus Family First Relief Act, which benefited 4,000 of our state teammates who were personally impacted by COVID-19. So when faced with that unanticipated workload directly in response to the pandemic and needing to balance between our normal run-the-business obligations, certainly there were constraints placed upon us. We don't say that to make any excuses but, again, to place context around the report this year and express our com-- enduring commitment to make sure that our accounting reporting is as accurate as possible.

STINNER: Let me put it to you a certain way, then maybe you can understand what I'm trying to get to. I get the fact that the state is-- is-- is accounted for on a cash basis. CAFR is the accrual basis or generally accepted government standards, general accepted accounting standard. So who is responsible for bringing the cash-basis accounting to a CAFR accounting or an accrual-base accounting? Is it your department or is it the State Auditor Department?

JASON JACKSON: I would need to research that and get back to you. You're using terminology that's foreign to me.

STINNER: OK. The information that's prepared for CAFR, who-- who prepares that information?

JASON JACKSON: State Accounting prepares it.

STINNER: OK. And they are-- they then forward all the information to the State Auditor so the State Auditor can do what with it [INAUDIBLE]

JASON JACKSON: Yeah, so when-- if I may, I'll kind of walk you through what I believe occurs and what I think is the right model. State Accounting works shoulder to shoulder with the state auditors. We take the perspective that we're all wearing our state of Nebraska jersey and we're in this to make sure the state's finances is correct. I'll note that-- so what happens is, you know, you have the totality of financial reporting for the state. We need to produce a report by mid-December that's been audited in ad-- 20 days in advance of the legislative session commencing. Now, if all of that work were to just kind of-- State Accounting is producing this all and creating a final report, putting a bow on it and handing it off, that would jeopardize the ability to meet that deadline because then, of course, the auditors would have the burden of reviewing this report in its totality. So that's why I say it's State Accounting and Administrative

Services' perspective that we're working shoulder to shoulder, because as we're producing this report incrementally, we're providing it to the auditors to review contemporaneously with that process so that both the audit and the final report arrive at the same time in a complete and accurate function. And I'll note that that's what happened here. The report was accurate. All of the mistakes that were identified by the auditors were corrected in advance of the final report's submission. So the report reflected all of that feedback. The issues identified by the auditors in their management letter were issues that had arisen during that five-month process to produce the report that were corrected by our team real time as they identified those issues.

STINNER: OK. I understand that part of it. You prepare it. Auditors audit it. They get back to you with any errors that they find, and that's what ended up being in this report. But they also go far-- as far as stating: Our consideration of internal controls was for a limited purpose described in the first paragraph and not designed to identify any deficiencies. A deficiency in internal control exists when a design or operation of control does not allow the management or employees, in the normal course of performing their assigned functions, to prevent or detect or correct misstatements in a timely manner. That means you do not have a system that, when somebody prepares it, hopefully reconciles it to some kind of ledger, subsidiary ledger, and then passes it up for financial statement purposes so a reader of financial statement is reasonably assured that it-- the-- that you have some kind of accuracy. That's where you failed the test and that's what you have to fix. And I'm-- I'm hearing you say, well, it's just through a-- no, it isn't. You've got a systematic-- systemic problem within that department that needs to get fixed so that we can have accurate accounting on a timely basis that the Auditor doesn't have to go through and fix all of this stuff. That's the bottom line to this report. That's in my estimation. That's my interpretation. I'll now turn it over to the committee for questions. So anybody-- Senator Vargas.

VARGAS: Thank you very much--

JASON JACKSON: Yes, sir.

VARGAS: --Director Jackson, for being here. Kind of along the same lines, one of the-- one of the highlights that I-- from reading the Auditor's report here is that like many of our audits, this is just a snapshot, but with the snapshot, seeing the billions of dollars, you know, obviously it's a back-and-forth to what Senator-- Chairman Stinner referenced, which is I think the most concerning part. If-- if this snapshot has identified-- helped us identify $21 billion as a sample, how much more is there? I mean, what are you doing now to review and identify other issues? They-- they identified the issues from their sort of snapshot of taking a sample, and you addressed those issues, but what's being done to address ones that haven't been identified by the Auditor's Office?

JASON JACKSON: I appreciate the question. So both a ref-- a response to that and I think a reflection, Senator Stinner. I'm not attempting in any way to diminish the Auditor's findings. I am attempting to provide it in context and particularly the context of Accounting Division is only a year removed from being recognized as-- for-- by their peers for the excellence in preparation of this report. That having been said, Senator Vargas, to your, you know, question pertaining to, hey, if this is sampling and representative, you know, again, that's representative of process improvements that we can make. So what are the specific steps that we're taking in response to that? Again, we're enlisting the help, the support-- all the financials that happen up until June 30 happen at the agency level, so what we're starting with is basically a process improvement initiative that would map from end to end the production of this report, beginning from at the program level in the agency to this time in which the-- the CAFR is actually produced, and what are the opportunities to improve-- basically reduce the variation in that reporting across the breadth of that production. We've enlisted the help of our largest agencies with the most transactions to commit resources to that effort. We intend to both look at the process, as well as dedicate additional resources at the agency level, to make sure that there's good fidelity with agency-level submissions. So that's the first affirmative step that we are taking. Secondly, we're going to look at every mistake or issue the auditors have identified over the preceding three years. We took particular note that the auditors did say that some of these have been reoccurring issues, and we're going to use those to test those and basically create a tracker as we go through the production of any subsequent auditor to make sure that those specific issues are addressed and don't reoccur. Thirdly, and it's premature for me to commit to this mostly because I don't yet know the cost, but we are looking into enlisting the support of a third-party auditor to help us oversee the process with the production of the next report. So those are three affirmative things that we have flight-- in flight that we are optimistic will address the issues that were raised in this present CAFR.

VARGAS: That's helpful. And I wanted to make sure it's clear because it could be substantially more. Maybe it's not, but I think the Auditor's report-- in terms of other inaccuracies in reporting, right? Not misuse of funds, but we want to make sure that we are-- we're fixing this. I mean, they referenced to-- back to 2007, there was some similar issues that had carried over. I do understand the extenuating circumstances. I think there's extenuating circumstances for every single state has been somewhat similar in a lot of ways. But we have to make sure that we're responding to taxpayers, and even the editorial did-- is citing a recurring issue and problem we-- which want to make sure there's transparency with what you're going to do to fix it.

JASON JACKSON: Understood. Thank you.

STINNER: Senator Erdman.

ERDMAN: Thank you, Senator Stinner. So, Direction Jackson, did I hear you just say that we're working on correcting errors that they discovered over the last three years? Did you say that?

JASON JACKSON: That's our starting place, yes.

ERDMAN: So if this is not the first time, why did it get this bad this time? I mean, you know, if you knew that there were errors before, why continue to let it go on until it got to this stage?

JASON JACKSON: I-- that's an appropriate question and we have to remedy that. But again, this year has been an outlier. The report was produced in the same manner it has been every previous year. It didn't result in the findings that it did this year, so we're taking that in context of the overall performance of the division, but at the same time taking seriously the need to correct these. When I assumed this position three years ago, the Auditor's Office expressed to me their discontentment with this process, specifically that it does create upstream work for their office when there are mistakes that are made downstream at State Accounting. We share that frustration. In fact, we're enormously empathetic to it because we're burdened by that same burden downstream of us at the agency level. So we mutually resolved that we were going to be dedicating ourselves to improving this process. Again, I'm optimistic that improvement has been made, as reflected by the recognition from the Government Financial Accounting Association just last year. We're going to continue to invest in those improvements and, again, make sure that recurring mistakes made in preceding years don't recur again.

ERDMAN: So in Program 567, the Accounting Division, in '18-19 your program total was $9.8 million and currently you're at 6.7. So if you're having trouble in accounting, it looks like you've cut out some spending in accounting. Did you eliminate some accountants?

JASON JACKSON: No. I would have to look at the specific line items in that. But I think that flows from the discontinuation of a software program that would have been unrelated to the accounting function and would have been related to human resources management, which Accounting Division supports. The headcount and size of our Accounting Division is the same. In fact, we've added headcount to our CAFR team. We need to continue to invest in that function. We're adequately funded to do that and that'll be our intention.

ERDMAN: Well, I think Senator Vargas and Stinner alluded to the fact that there are other-- the letter from the Auditor's Office said there were other things that may be in question, but we just did a sample so we don't know. That-- that is a problem for me to understand what other things don't we know, because in my past I served on boards when I didn't know everything that I needed to know and I made some poor decisions based on the information I had. So it's important that we have correct information. So if I were to ask the Auditor's Office if they feel as confident that you've fixed this issue as you do, would they agree with that?

JASON JACKSON: I-- I didn't express confidence that we've fixed the issues identified in the report. I expressed confidence that we have the team in place and that we have a plan to address the issues.

ERDMAN: OK, so then would the-- would the Auditor's Office agree with your plan that it's going to resolve what we've seen happen here?

JASON JACKSON: I couldn't speak to that.

ERDMAN: OK.

STINNER: Additional questions? Seeing none, thank you.

JASON JACKSON: Thank you, Mr. Chairman. Thank you, Committee.

ED TONER: Good afternoon.

STINNER: Good afternoon.

ED TONER: I'm going to take off my mask. I'm not quite as articulate as Mr. Jackson, so I think you guys can hear me a little bit better without it. Chairman Stinner and members of the Appropriations Committee, my name is Ed Toner, spelled E-d T-o-n-e-r. I am the Chief Information Officer for the state of Nebraska. I appear before you today to testify in support of the Governor's budget recommendations for the Office of the Chief Information Officer. The Office of the Chief Information Officer is largely a revolving fund division within the Department of Administrative Services. Fees charged to agencies and other governmental entities for goods and services represent 100 percent of our revenue for revolving-funded operations. In order to respond to planned and unforeseen spending requests by our customers, the Office of the CIO needs sufficient revolving fund spending authority available within our budget for the upcoming biennium. The budget of the Office of the CIO is contained in the budget of Department of Administrative Services and is-- and is represented by five programs: the Chief Information Officer; Intergovernmental Data Services; Information Management Services Division; and the Communication Division, as well as the Public Safety Communications System. I appreciate that the committee's recommendations were very similar to the Governor's recommendations with one exception. The committee's preliminary recommendations included reductions to the General Fund appropriation, again, a very small fraction of my overall budget. Program 101, which is the General Fund, houses a majority of the expenses that incurred-- that are incurred to run the Nebraska Information Technology Commission, the committee that the office of the CIO is statutorily obligated to oversee. Reduction in General Fund appropriations forces these expenses to be shifted to the revolving-funded programs, shifting additional expenses to revolving credit programs, which ultimately translates in increased user fees paid for by agencies and commissions. The Governor's Program 101 cash budget recommendation included $111,506 in the second fiscal year for the new biennium for the new Office of the CI-- Office of the CIO state broadband coordinator. The committee preliminary recommendations for Program 101 include a proposed PSL decrease and did not include the amounts for the new OCIO State Board broadband coordinator position authorized by the Legislature. I ask this committee to support the full amount of the Governor's recommendations so that we can fill this new position created by the passage of LB992 last year. I want to take this opportunity to thank the Governor and this entire committee for the support shown to the management of the information technology in the state of Nebraska. And at this point, I'm happy to ask-- answer any questions that you may have.

STINNER: Any questions? I have a couple of questions. One of the things that I've asked on occasion, and I think our fiscal analyst has tried to do, is to take a look at what expenses we have incurred and how they're passed through to make sure that we're kind of a revenue-neutral situation so that it is that way.

ED TONER: That's correct.

STINNER: Also asked the fiscal analysts to take a look at over a three year period of time, since you've taken over, what-- you know, you've actually taken over a lot of the IT functions from various agencies, brought people on board and stuff like that, and I've asked for full-time-equivalent growth. I think that the-- the idea that we were going to do centralized data processing with you and save, I-- if my recollection was right, it was at least $5 million in the consolidation. I need to see that and evidence of that.

ED TONER: Yes, sir. We report that to the chief of staff on a monthly basis.

STINNER: OK.

ED TONER: I can give you some very high-level things that have happened for consolidation. We have eliminated, through retirements, transfers, resignations, 96 FTEs in this state. At an average IT salary, that adds up to quite a lot of savings in itself. That is over $5 million. We have also eliminated 375 servers. That doesn't sound like much, except that I only have about 2,000, again, a tremendous savings for this state because not only do you eliminate this-- the cost of the servers, so we're talking millions of dollars-- it's over $2 million-- but you pay 20 percent a year on maintenance on that $2 million. The actual resource savings is $7 million a year that we eliminated, so now we're already over the $10 million a year. We also eliminated 6,000 square feet of data center in this state. Data center square footage, the cheapest data center square footage, is $125 a square foot. That is for the absolute bare-minimum cost of a data center. So there's another million dollars a year that we've saved. We've also renegotiated all of our contracts. We had three Microsoft Enterprise contracts. We eliminated two of them and brought them into one. We had five problem management systems. We now only have one, which we don't pay for because we were already paying for it within the Microsoft agreement, but we had other tools outside the Microsoft agreement that agencies were using. Those are just a few. I could go on and on. We had saved $500,000 a year in what's called virtual memory software. Why? Because I don't use the servers anymore, I don't need the software. I saved, you know, $500,000 in IVR, voice rate, through consolidation of all our phone systems. So we have an accounting, Chairman Stinner, that I give to the chair-- the-- the Governor's chief of staff every month with a line item of those. Some of these servers that we eliminated are what's called AS/400 servers. They are midrange servers. They're between a Windows server and a mainframe and we eliminated-- in the counties alone, we eliminated 93 servers from the counties and put them on 2. Those servers have an average cost $20,000-30,000 plus, again, the maintenance that you pay for every single year. Now when agencies say, well, the cost of the OCIO is going up, the big problem is, when I brought in those 2,000 servers into our department, I expected to see that there was maintenance being provided to those servers. The life of a server is five years. Anything over five years, you are paying higher maintenance costs or you are not being maintained whatsoever, so if your server goes down, the manufacturer will not service your equipment. The average age of the servers I brought into the office were over eight years old. I had to replace them all. I didn't expect that when I consolidated. I expected that the servers would be serviceable. I brought in servers that were 14 years old, three times the length of the life of the server. The other problem is they weren't patched. That brought additional risk. Who absorbed that cost? I did. Other states have tried consolidation. We are the only state that has ever succeeded in a pure consolidation effort. Other states have been given millions of dollars to do this exact thing. Why were they given millions? Because they knew they were going to have to replace outdated equipment. We did that with little to no rate increases. We set out to only consolidate code agencies. We are now sitting at over 60 agencies consolidated, 93 counties consolidated. The city of Lincoln uses our services and the city of Omaha buys services from us. We were just given this year the award by the Digital State Survey as the most resilient IT group in the country, number one out of 50 states. Why? Because of consolidation, because when I brought the servers in, I not only bought one server for this agency. If it was a core application, I bought two servers. One server sits in our Lincoln data center; one server sits in our Omaha data center. I don't believe anyone has ever read about an outage in the last six years under my tenure. We didn't have any. Our availability is posted. I put it online for the entire world to see. I write a blog. Our availability is 99.99, which is unheard of in the industry. I'm very proud of the fact that, one, we're recognized as one of the best states in the nation and one to observe. I get calls from Montana, Arkansas, Maine, Iowa, asking, how did you do it and how did you do it so cheaply? We just-- Arkansas-- or Kansas has called me three times and Kansas was just given a $110 million to refurbish some of their equipment this year. So the Office of the CIO has done an incredible job. We have kept our rates low and you're going to see we're going to get our rates lower in the future because now we have paid off all that equipment that we had to buy and now I can really look at savings as far as we have a project called Application Portfolio Management. We've already found 76 applications that we eliminated by going through all the agencies. Because all the agencies are in our data center, I know what they have. We found 76 either applications that are not being used or are duplicates and we eliminated those this year. I committed to the Governor I'm going to find another 25 next year, and we're going to continue to do that. Now the thing is, when I tell you I'm eliminating applications and I'm eliminating servers, what does that do to me? I just threw away my customers. If I hadn't eliminated 375 servers, guess what I could have done? Could have charged for 375 servers and then I could have charged for 20 percent maintenance on each one of them, but I didn't, so I cut my own source of revenue by doing the right thing for the citizens of Nebraska. When we eliminated 76 applications this year, those 76 applications, they weren't my applications. They were agency applications they didn't realize they were paying for and they didn't need them or we had no alternative for them. I could have continued to take that revenue in. But, no, we did the right thing. We eliminated it. So when I hear about rates and when you-- and you can research this. No one else has ever done this. No one else has ever done this, even when they were given money to do it, but Nebraska has and we are held up. This year we won the Digital State Survey: most resilient IT in the country. Two years ago, we won the award for consolidation effort. No one else has ever won an award for the consolidation effort. However, for the past ten years, guess what the top ten objectives of every CIO, every state CIO's top-ten objectives? In the top five is consolidate IT every single year for ten years, and yet it's still top five because no one's been successful.

STINNER: You've indicated virtual memory software you've gotten rid of. That tells me you've gone to the cloud.

ED TONER: No, we-- we-- we do, Senator, go to the cloud where we see a cost benefit. I'll give you an example: email. We had email "on prem." What does-- "on prem" means I have the servers in my data centers, and I had two of them. I had the opportunity to get into a deal with Microsoft, which is called express routing. Express routing means that I'm not going to send your information, the state's information, into the cloud and then hit Microsoft Data Center. I brokered a deal which we pay $600 a month for. I feed directly into Microsoft's data center. Now what does that give me? Total security of our data. They are a node off of my network. That is the cloud. That's the option that I have done. Now what else did I get for that? They're now storing all my emails for free. I'm not charging storage. We're also-- we have a thing called Active Directory that's also done that way. The new virus scheduling program we put right into express route. What does that mean? If someone puts PII, personal information, in there? I've just protected it. It's encrypted from that input all the way into what most people would call the cloud, but I don't use the cloud because I don't go into the Internet and back down into Microsoft. I go direct to Microsoft and we do it right here at 1526 Farnam. The Carrier Hotel right here in Omaha, Nebraska, does that for us. And they just charge us because the racks, the Microsoft rack, believe it or not, ours are in the same building and we just-- essentially we call it a cross-connect, but it's like a jumper cable between the two, so they think that we are just part of their network.

STINNER: One last question: Cyber security, penetration testing--

ED TONER: Absolutely.

STINNER: --tell me who does that and--

ED TONER: That's another thing that we save money on. Homeland-- most people pay for that. We have an agreement with Homeland Security to do all of our "pen" testing thing for free. We have successfully passed every pen test ever since I've been here. So we get all of that free. We do use multiple security apparatus and tools, but our biggest improvement that we did was when we just consolidated, we call it-- and I tell my team not call it this anymore because it's now the network, but we called it New World Network. We designed an entirely new network when I got here-- I come from an architectural background-- where we put our personal data. We-- it's called protection through depth. What happens is you have to get multiple layers into our data and we are surrounded it by what's called the DMZ, and the DMZ is just like a de-- demilitarized zone. It's-- it's servers that protect that data. So we have what's called security in depth, and we did that when we went to consolidate because we felt like when we brought all the agencies' network gear in, we might as well put it on a brand-new network. That is completed, that helped us, and again, you've never seen us in the paper.

STINNER: Senator Clements. I'm sorry. I didn't see [INAUDIBLE]

CLEMENTS: Thank you, Mr. Chairman, Senator. Thank you, Mr. Toner. I-- we've had a bill we've been discussing the last couple of days about the DMV and software upgrade for their driver's licenses, and I'm wondering if you've been involved in helping them figure the cost of that software and, you know, yeah, that's it.

ED TONER: This is the future for the driver's license?

CLEMENTS: Yes.

ED TONER: Yeah. That project I have been involved in. I know that we're five years away from actually putting that in because they have to have a reserve fund, from what I understand. When they go to utilize a database, we have a database that actually maintains their vehicle title registrations. And what we did was we put scanners in every single-- all 93 county-- counties have scanners. In the past, they would take those drivers, the-- the vehicle title registration, and they would file it because there's not that many in Cherry County. Right? I mean, there's not that many to have. Now they don't file anything. They actually just scan it. It automatically goes into our database and we index that database. So if I want to see your driver's license, your vehicle title registration from anywhere in the state, you can get it out of our database. Now they have-- they have talked about the cost of that. The cost of that was very competitive with anyone else. And the application they put in didn't have a database. They didn't even offer one. So they had to use our database or someone else's. Now the project coming up is the same way. And I said, you know what, we'll get there when we get there. I'll give you a quote for what our database is going to cost you. Now, remember, fully indexed, scan any document-- we scan all documents in the state. That's where we put it. All documents from every agency has used one database, so I have all the data scanned in one database. Now if they, in five years, on this driver's license program, decide to not put that information into our database, then they will have to go to the NITC to get an exception because the NITC sees the value of one, one database housing all the state data, placed into that DMZ that I'm talking about to protect that data, and then we can share data because it's all the same format. So I did-- Senator, thank you for bringing that up. That was a great question because that-- that is something that, one, it sounded to me when I got to the meeting it was imminent, come to find out it's five years away, and so I said, essentially, let's talk about this in five years.

CLEMENTS: Thank you.

STINNER: Attritional questions? Seeing none, thank you very much.

ED TONER: Thank you, sir.

STINNER: Congratulations on the award.

ED TONER: Thank you. We're very proud of it. Thank you.

BOB RIPLEY: Good afternoon.

STINNER: Good afternoon.

BOB RIPLEY: There's a smile under here, I assure you. Chairman Stinner and members of the Appropriations Committee, my name is Bob Ripley, R-i-p-l-e-y, and I have the privilege of serving as Capitol Administrator for the Office of the Capitol Commission. I appear today in support of the Governor's recommendation for our agency. We support reaffirmation of an appropriation of $13 million for fiscal '21-22 and $11 million for fiscal '23-- excuse me, '22-23, to support our ongoing Capitol HVAC project, which remains on schedule and within budget. We ask the committee to support this recommendation, which will see phase three of this work commence in the northwest quadrant of the Capitol beginning August of this year and will be completed by the end of calendar 2022. Although phase three is not the largest floor area in this five-phase, eight-year construction project, it does involve the relocation of the largest number of elected officials and state staff of all five phases of this work. This concludes my prepared testimony. I would now attempt to answer any questions the committee may have.

STINNER: Any questions. Senator Clements.

CLEMENTS: Well, thank you, Mr. Chairman. Thank you, Mr. Ripley. Has the project then coming in within budget?

BOB RIPLEY: It has. We are about two-thirds of the way through the second phase of five phases. That's the southeast quadrant of the building. We fortunately remain on schedule. The dollars are always a challenge, especially with what COVID has done to the supply chain of construction materials, as well as slowing and retarding manufacturing of those same materials throughout the country. We've all been suffering under that and we-- we're trying to adjust as best we can. But right now we remain within the budgetary limitations that we've set on the project. So, yes, so far we-- we've remained, as I say, on schedule and within budget.

CLEMENTS: And have you had any notification that the power could be shut off at the Capitol with the cold weather?

BOB RIPLEY: I was informed of that by a colleague who's the project manager for our heating, ventilating and air conditioning project. Yesterday, when we started hearing about the cold weather, we were told of the rolling blackouts that would start occurring. It's a power pool issue. As you are likely all aware, Nebraska is in a power pool, buying wholesale power from various locations. And when we see that the peak use of what we purchased and other states have purchased starts pushing toward the maximum to avoid the incredible penalty for going beyond our-- our limited purchase, it costs us dearly and it's-- it-- a lot of this, of course, is driven, as you would all suspect, by the states south of here who are experiencing incredibly cold weather for their--

CLEMENTS: I'm more interested in this building.

BOB RIPLEY: Pardon me? Oh, this building, yes. This building has the distinction of being a pretty serious energy user for all the people that we have. We've got a thousand people in the building. There's a lot of functions and uses going on in it. We're also tied in directly with the university because our primary power source to the Capitol is and always has been sourced from the University-Lincoln campus to the Capitol beginning in the 1920s. So when we experience a rolling blackout, that is driven first by the University of Nebraska, because they are shut down, they-- they have an enormous load, as you can imagine. And so I think 20 megawatts was the intent to try to kind of keep everything down yesterday. They did that very successfully. We've not had any further blackouts since then. So we're linked to the university in that regard. And we have now, fortunately, as a result of the HVAC project, not only primary power from the university, we have a secondary power source from another portion of the grid by LES that comes from the south that supports us. So if the university's system shuts down, we pull power from another grid within the LES system; and if those two shut down, we have an emergency generator, a 2-megawatt emergency generator installed as part of phase one of our HVAC project that kicks in and covers our outage. And that is indeed what we did because since we were trying to save money within the overall LES grid, we shut down both power sources and went completely to emergency generator, a diesel-powered emergency generator located right across the street behind the Executive Building. So that's how we managed our--

CLEMENTS: Was that yesterday you did that?

BOB RIPLEY: Pardon? Yes, yesterday.

CLEMENTS: All right. Very good. Thank you.

BOB RIPLEY: Thank you.

STINNER: Senator Hilkemann.

HILKEMANN: Following up on Senator Clements' question, eventually, this is going to be all geothermal energy, correct?

BOB RIPLEY: That's correct, exactly correct.

HILKEMANN: OK.

BOB RIPLEY: We have 225 wells set under the site that is right now just kind of a patch with the fence around it. It will eventually be converted into a surface parking lot for the time being. Before we had the COVID shutdown and everyone working from home, there was some thought of putting a four-story state building on two levels of parking with two levels of office above it. That has become unnecessary, so there's a-- there's a cost savings. That's the only silver lining I can think of associated with this particular pandemic. But in our case, that was indeed the case. Those 20-- 225 wells go to a depth of over 600 feet, get enough surface area, and the southwest quadrant of the building is running on that as soon. As we finish phase two, the southeast quadrant will be turned over onto that wellfield geothermal system. Soon as we're done with phase three, we'll convert it to the wellfield, and we will be gradually shedding our rely-- or our-- our dependance on the University of Nebraska's power plant up on Avery. I think it's 14th and Avery down near the Rec Center, Cook-- Cook Pavilion. They provided steam to the Capitol from the day the building was built. We have our own standalone steam system behind the former Catholic school across the street from the

Capitol now. But we still get chilled water from the university by way of 16th Street. And once we're completely onto the geothermal system after phase five, we will no longer have a connection to the university for any utility.

HILKEMANN: So then from what you just said, a fourth of this building right now is being run geothermal energy.

BOB RIPLEY: A little under a fourth because we-- we're calling it five phases, the four quadrants in the base of the building, and the tower being the fifth.

HILKEMANN: OK.

BOB RIPLEY: So there's a little more than-- a little-- I should say, a little less than 25 percent or a quarter of our total use there, because we've got the tower. It's kind of our fifth quadrant, so to speak.

HILKEMANN: OK. All right.

STINNER: Senator Kolterman.

KOLTERMAN: Thank you, Senator Stinner. The building is older and obviously technology is moving in a different direction than it was when this building was built. Are there any plans by the Capitol Commission to upgrade these hearing rooms so that we can have interactive conversations with people from Scottsbluff or Gering or-- or Sidney or Omaha so they don't have to drive in? That's the first part of my question and I-- and I understand the value of keeping up with-- keeping the original aspects of the building. But obviously, bathrooms in the country have changed recently over the years.

BOB RIPLEY: Uh-huh.

KOLTERMAN: When can we expect to have any of that built into what's going on here in the capital?

BOB RIPLEY: Sure, good questions. As long as there is the legal opportunity to provide the interactive communication in hearings and various other ways to conduct our business in that fashion, then we will absolutely address that. We've not had that brought to us as yet.

Now our office is responsible to the Nebraska Capitol Commission, which-- as its name implies. It's a nine-member commission, eight voting members, and one of those voting members is the designated Speaker of the Legislature. In-- in that individual's absence, the Exec Board chair could serve as an alternate, and then the Clerk of the Legislature is the third. So very deliberately, the Legislature, as well as the Supreme Court and the Governor, who chairs the commission, are all represented on that body, and they're the ones to whom we get our approval to spend money on every appropriation we get, that we propose things that we want to have achieved and want to ask for funding. They're the ones we go to and we rely heavily on them for advice and counsel on how we not only do work that we're doing today, but how we plan our work from the future. We want the building to have it all. We want to have the historic preservation aspects and we work very hard at preserving those. But equally, we want the building to be as current and contemporary and office functioning building as the state of Nebraska has. I'll tell you, I know a few buildings in the city of Lincoln that have a more-- I won't call it advanced, but an up-to-date computer wiring network in it, as the Capitol does. Cat6 wire feeds every data port in the building. During a renovation project in the late 80s and early 90s, we put in this floor port system, which has a combination of phone and data port behind each brass cap in the floor, and there's a gridwork of those in each office, so when one person wants to move from one corner of a room to another corner of a room, they simply unplug there and plug into the new port. So we have, because the building had a lot of this raceway system built into the original floor when the building was built, wasn't built for computers-- what are they in the 1920s? But they were built for an intercom system and a telephone system. We simply took advantage of what was there. We expanded it. We worked with the-- with the CIO and planned out a communication network within the building that is integral to the infrastructure of this building. It's build into the floors and the walls. So, again, I think we can have our cake and eat it, too, two pieces of cake, as a matter of fact, our historic preservation and the technology that state government must have to do the service we require for the-- for the-- for the citizens. Give me the second half of your-- your question again, please.

KOLTERMAN: Well, the bathrooms could use some good renovation. I'm just curious where that's at.

BOB RIPLEY: It-- that's-- that's very true. We are-- at the current time, we have the bathroom facilities that, yes, the materials are older, the tile on the floor you won't find anymore. The-- not many restrooms are made with-- with marble Wainscotes and so on. But all of the services and facilities within them are there. We have-- and we're in the process of modifying for ADA purposes. The building doesn't meet every aspect that the Americans with Disabilities Act requires, but it does everything we possibly can within that balance. For instance, we're working right now on the northwest corner of first floor, the men's and women's restroom there, retrofitting them with door-activation systems so that the disabled that are in a wheelchair and don't have the motor skill or the strength to be able to reach out and pull a door open with their arm-- and there are individuals like that, bless their heart. We think every Nebraskan should have equal access to their state government, much less their State Capitol, and so we're putting in-- working to put in pushbuttons there so all they need to do is touch a button on the wall. The doors will open automatically for them, two for the men, since there's a vestibule there, and only one door for the women. But we have that going into that corner of the building, one, because there's room at the entrances to allow it; and number two, it is closest to where the accessible elevator from the basement all the way to third floor is located. So those facilities can kind of be collocated. Someone uses an elevator to go floor to floor and they need the restroom, they have the most easy access and they don't have to look around the building to locate. So, yes, the fixtures may be older, they-- the restrooms may not be laid out exactly as you might in a-- in a building today. But we meet, in terms of capacity, the number of fixtures and services required in a restroom. We meet ADA and we work on meeting ADA every chance we get. There are a couple of things we can't do in obvious fashion. The tower elevators can never be made accessible because it would require a five-foot turning radius for a wheelchair to go into the cab and turn around. However, we make accommodation where we can for those who cannot use it. We have a-- a videotape for disabled person who comes in and says, I'd like to at least see what it's like to go to 14th floor, what's up there, what's the view look like when you're there. So we have a tape that shows them the experience of going up on the elevator, that they can go into the Memorial Chamber and see the eight murals that are atop the Capitol Tower. We give them the experience of looking out over the city and seeing the view that they can view from those locations, so we try to provide that reasonable accommodation when the physical accommodation is not possible.

KOLTERMAN: Thank you.

BOB RIPLEY: So we work at it. Again, we try for our cake and eat it too.

KOLTERMAN: OK, thank you.

BOB RIPLEY: Sure.

STINNER: Thank you very much.

BOB RIPLEY: Thank you, Senators. Thanks for your time and your questions.

STINNER: Any additional proponents? Seeing none, any opponents? Seeing none, anyone in the neutral capacity?

CRAIG KUBICEK: Good afternoon.

STINNER: Good after--

CRAIG KUBICEK: For the record, my name is Craig Kubicek, C-r-a-i-g K-u-b-i-c-e-k, and I am an assistant deputy auditor with the Auditor of Public Accounts. With me today, I have Mary Avery and Russ Karpisek, and we were asked today to just come and be available for any questions related to the management letter that was released or the CAFR in general. And so I don't really have any prepared testimony, but with that, I will open it up to any questions that you guys-- the committee has for me.

STINNER: Questions? Senator Wishart.

WISHART: Well, thank you so much for being here today, and thank you to your whole team. You all do very good work. One of the questions-- I have two questions, the first being, when we see issues like we have with this audit report, does this reflect negatively on our state's standing with any sort of ratings or anything like that? Can-- can you walk me through that, because I imagine if this were to happen in a business, there would be some fallout associated with it.

CRAIG KUBICEK: Yeah, and for like a business, you know, if you're a publicly traded company, obviously, if you get a disclaimer, it's a much bigger issue than the state, I would say. There is possible repercussions. You know, it could affect bond rating, master lease. It could have-- it could have an effect on that. As far as the unemployment piece, the feds could come back and-- and the state could have to pay-- pay some of those monies back. You know, with pandemic and those sort of things, probably not likely, but, you know, there is a chance with the disclaimer and the nonclean opinion that those are possibilities.

WISHART: OK, and then the other question I have is you've noted in-- in your report that there was significant work that had to be done from the Auditor's Office back and forth, back and forth. Can you calculate sort of how many hours that took and-- because those are resources from-- from your office and your department that you had to utilize for this, that otherwise could be used for other things. And moving forward, I noticed that some of the recommendations are that you will provide additional training and resources. So just from our-- our committee's standpoint, it'd be helpful to know what those dollars are so that we can make sure we get you the resources you need to ensure that you have some more oversight.

CRAIG KUBICEK: At the-- at the end of the CAFR, we-- I mean, we sum all the hours and off the top of my head, I'm not quite sure I would-- it's in the thousands, I would say, probably in the 3,000- to 4,000-hour ballpark of hours that are required to put the CAFR together. I can double check on that and get back to the committee. As far as right now, we've issued all the management letters to date and the CAFR is pretty well completed, so we should have a good ballpark on the total number of hours that we've spent on the CAFR for fiscal year '20. And in saying that, you know, we're an office of 40-some staff and we have a lot of, you know, things going on with budgets, audits of municipalities, all, you know, audits of agencies, all sorts-- you know, the single audit for all the federal funds coming in. And so, yes, I would say, you know, working back and forth, those hours could be spent probably on other things that-- you know, we don't get into agencies all that often because of that. And so, I mean, the answer to your question is yes, and it is a significant amount of hours that we spend.

WISHART: And then just moving forward, it'd be helpful for us to have an idea of, you know, ensuring that your recommendations are being included in the next year plan for this, what kind of additional man and woman hours that would take so that we know funding-wise that we're getting [INAUDIBLE]

CRAIG KUBICEK: And I think we're prepared to-- you know, when we do our testimony on Friday, I think we're prepared to kind of hash those out and what-- you know, what's needed and what areas haven't been done in several years, and I think we'll be prepared to address that on Friday at our-- at our hearing.

WISHART: Thank you.

CRAIG KUBICEK: Yes, ma'am.

STINNER: Chris, [SIC] I asked you to be here to talk to the committee, and I would like you to take us through the report and explain in an audit terms, CPA terms, what the findings are about, what deficiencies are, and how you look at-- at the--- let me put it this way. Just explain it like you would-- would be able to present it to a board of directors or something along those--

CRAIG KUBICEK: OK, and you're referring to just the DAS CAFR management letter?

STINNER: I'm talking-- yeah, it's--

CRAIG KUBICEK: OK, so we-- and just-- just for everybody's under-- so we-- basically the CAFR, DAS kind of prepares, and then our piece of that is the independent Auditor's report. That's kind of our communication. It's a three-page report. But then in addition to that, we issue what's called management letters that kind of support our positions, our findings, our recommendations, to support, you know, what's going on. And so we have issued several management letters, but we'll focus on the DAS one at hand. The first comment there kind of sticks out and it obviously has gotten attention, but just errors in CAF-- CAFR presentation. This is not-- I mean, it's a list. It's not netting. It's a list of errors. If you would look at prior year, fiscal year '19, fiscal year '18, you would see similar issues that is included in these management letters. We-- we totaled it this year just to get-- you know, it's like we-- we keep re-seeing, you know, similar issues. We put a total to it. As Mr. Jackson alluded to, there was a large, you know, $13 billion error which increased that to the $21 billion. But if you would look, you know, at several of those lines, you're going to see similar issues.

STINNER: So DAS, just for the-- the record and-- and information for the committee, DAS actually prepares the report, gives it to you. You're doing the audit.

CRAIG KUBICEK: Yeah. And so--

STINNER: [INAUDIBLE] your findings and it's errors-- I'm just looking at the second page-- errors in calculations, staff errors, outstanding amounts not received, existing-- is that emblematic of what?

CRAIG KUBICEK: Yeah. I mean, we-- so government auditing standards require us to be independent. We can't prepare the financials and audit them. Now, if we see errors, we can propose adjustments, which we have proposed, you know, all these adjustments to DAS to prepare, but we have to remain independent in auditing. And so we can't-- you know, we can't audit and prepare the financials at the same time. And so that's where-- yes, it's a-- it's a-- you know, we have to-- we have to work together because, you know, of the deadline and those sort of things. But it's, again, we get those prepared financials and we're obligated to audit those financials.

STINNER: So it's emblematic of what when you-- when you're an auditor and you look at all these errors and you're saying what?

CRAIG KUBICEK: I mean, it's-- it's not all-- I would say it's not all DAS. I mean, when you look at some of these errors, it flows downstream to other agencies, whether they're not knowledgeable or those sort of things. We-- we have agreed and we've told DAS that we can provide training. There's a number of errors and it's hard to pinpoint, you know, one item that-- you know, the $13 billion was a footnote error, for example, so that was just a number missed. For one of the items, a fund was missing in the-- in the report that DAS prepared. So, you know, those are sort of things that somebody else needs to be reviewing those reports, you know, and the financials. Narrowing it down to one specific problem? I mean, I think there's numerous errors that hopefully we can work together, you know, down the road to get those corrected.

STINNER: But even in your front part of the management letter, you say a material weakness in deficiencies or a combination of deficiencies in internal controls, such as there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, detected, or corrected on the timely basis. That tells me you've got a systemic problem. Is that--

CRAIG KUBICEK: I mean, we obvi--

STINNER: [INAUDIBLE]

CRAIG KUBICEK: I would agree we have a problem just to the point of a number of these have been repeat. If-- if you would com-- set 2020 next to 2019 and read them side by side, you're going to see similar errors or similar issues.

STINNER: That doesn't help me. Just because they continue to make errors, doesn't help me. What helps me is have-- what have they done proactively to put in place a system that says, when I give you the financial statements, you can rely on them. And that's not where we're at today, is it?

CRAIG KUBICEK: That is not.

STINNER: OK. OK, go ahead through this. Go. You can ask questions.

WISHART: I-- I wanted to just follow up on that. I mean, is the goal of this partnership that all of the agencies report to DAS, DAS looks through that with a fine-tooth comb, and then what they present to you, you can look through it, but you're not going to see layers and layers of issues that you have to then go back and forth. But isn't the goal that what they're presenting to you, if you didn't exist, would still be able to stand on its own?

CRAIG KUBICEK: That is the goal.

WISHART: Yes.

CRAIG KUBICEK: And that's the goal of any, you know, preparer of financial statements. I mean, that-- your hope is that they're accurate at the time that they're presented to the Auditor for review.

STINNER: Go ahead through. I didn't mean to interrupt you. I'm sorry. Is there another question to-- Senator Vargas.

VARGAS: So I'd asked Director Johnson-- Jackson about the-- just the snapshot. You know, you looked at a subset. What's sort of the percentage of financial transactions or reports are you looking at, or how many hours are you spending on the-- on just-- on the initial-- on all these ones that you identified. I'm trying to get a sense-- for transparency, I'm trying to get a sense of how many, and Senator Erdman alluded to this, are the other transactions that are part of the material or significant deficiencies that we're seeing, like how much more could there be, so--

CRAIG KUBICEK: There's definitely-- could be more. We, this year, disclaimed the audit opinion, which is basically, you know, there's four different audit opinions that you can provide. An unqualified would be a clean opinion; there's, you know, no material issues with financials. This year, we disclaimed the opinion and basically that's saying we didn't have enough audit evidence to establish an opinion. Those mostly related to capital assets and the construction in progress, and we have issued another management letter specifically to capital assets that go more in depth on those issues; and then the unemployment insurance, basically creating an accounts payable or accounts receivable for those, you know, fraudulent claims. Do we owe money back to the federal government? Are we getting, you know, a receivable for those fraudulent claims that we paid out to fraudulent transactions? And so, you know, up to the day we were working on those, you know, more-- you know, that we're-- they're still working on those numbers. And so there definitely could be additional errors. But it-- it-- you know, like Senator Wishart was alluding to, you know, every time you go back and forth, you know, you propose an adjustment, they change it, they might change it incorrectly. You know, that just takes time and then once you get that back, then you have to recalculate and put it all together again to make sure it all balances and foots correctly. So every time there's an issue, you know, that snowballs into additional staff hours, and so you're-- you're right on. I mean, auditing is-- is a snapshot and it's percentages and samples and those sort of things. But you've got to feel comfortable material-- materially that you're testing enough to substantiate the opinion. So I don't know that answered your question. I kind of went off a little bit, but--

VARGAS: No, that's OK.

CRAIG KUBICEK: And you can follow up if-- if that did not, so.

VARGAS: Yeah, I mean, I just want to-- it seems like there's going to be more that we find, but we just won't know how much that is.

CRAIG KUBICEK: Exactly.

VARGAS: So, and then, you know, my last question is-- so one of the things that you-- you reference here is that there's going to be corrective action, at least more formally documented. Do you have any-- and the-- and the reason I'm asking is, you know, we've had previous audits of different agencies and you've come here in the past and in the last four years and we've seen, you know, millions, right, or, you know, a million as issues. And the concern was always what Senator Wishart said, with-- the back-and-forth you had, which is if we have to pay back money to the federal government because of some-- some accounting issue, not maybe misuse, it's still an issue, even though it may not seem as big of an issue as-- as misuse of funds. So what are the corrective actions that have sort of come out of this even initially?

CRAIG KUBICEK: And you're talking like kind of our relationship with DAS, is that--

VARGAS: Yeah--

CRAIG KUBICEK: --and what they've told us--

VARGAS: --I mean, like, you know--

CRAIG KUBICEK: Yeah, and so, like--

VARGAS: --as like a-- you know, like the nonprofit sector, we--

CRAIG KUBICEK: And-- and--

VARGAS: Corrective actions come from the Auditor, so, yeah.

CRAIG KUBICEK: And so we-- you know, we've met with Jason and his staff and we're going to hold, I don't know how often, but leadership meetings with Jason and his staff to kind of get updates on where they're at for the fiscal year '21 CAFR and kind of moving forward. We've also expressed that we'd like to provide training to some of the DAS accounting just-- and not really training, but more of just, OK, these are the issues we constantly see. You know, it might be running a report wrong or it might be running it for the incorrect fiscal year, things that, you know, we can find pretty quickly that are incorrect. And so we would like to provide that training. We'd also like to reach out to other agencies and-- and do the similar type-- type of discussion with them to, OK, it's not going to correct everything, but if we can kind of put some underlying, you know, these are what-- common issues that we see, hopefully those, you know, eliminate some [INAUDIBLE] of these problems that we have. So construction in progress, you know, it's-- it's an accrual. It's-- it's complicated. And so DAS has put in place, last year, kind of a new form, and I think hopefully with that, in another year, hopefully that will get better and-- and more review of those sort of things. So the-- those are some examples that-- off the top of my head that, you know, we're-- we're working-- again, hopefully work together to make this a better product.

VARGAS: Thank you.

STINNER: Senator Erdman.

ERDMAN: Thank you, Senator Stinner. Thank you for coming. I appreciate that. Even though you're neutral, I appreciate it.

CRAIG KUBICEK: Yeah.

ERDMAN: That's an inside joke. But anyway, at the bottom of page 3, there's a-- there's statement there that-- that is troublesome for me. The statement is such that you said for number one, the agency fund financial for government required four revisions, the AAP [SIC] identified all the errors and brought them to the attention of DAS. During one revision to fix an error of $595,000, DAS made an additional error of $674,660,000 that went undetected by the staff. Can you explain that?

CRAIG KUBICEK: Similar to other-- again, when you-- you have an error and we propose an adjustment that we noted during testing or observing during testing, we propose an adjustment. Now, if you do that adjustment in the incorrect way or if you fudge a number or add a number, that can create--- you know, create errors down the road or other issues. And so, you know, that initial error, give them proposed adjustment. Their-- the error wasn't corrected appropriately and as a result, resulted in additional errors and going back and forth and then, you know, leads to my discussion before of-- of more time hours. So it-- it's just an accumulation of an adjustment done wrong that leads, you know, leads to additional errors.

ERDMAN: Would you call it significant?

CRAIG KUBICEK: I would call that-- yeah, I mean, to me, all this is significant, but yes.

ERDMAN: Five hundred ninety-five thousand to $674 million, that's a little bit of adjustment.

CRAIG KUBICEK: Right.

ERDMAN: So has that been fixed?

CRAIG KUBICEK: This-- this was fixed. And-- and I think, as Jason alluded to, besides the construction in progress and the unemployment, these errors we proposed and were fixed, again, this one took a few attempts, but it was corrected by--

ERDMAN: Thank you.

CRAIG KUBICEK: Yep.

STINNER: OK, it should be noted, on page 5 is the response by DAS to those items. Let's move to number two: unemployment insurance claims. Give us your auditor opinion of that.

CRAIG KUBICEK: Of the unemployment insurance?

STINNER: Right, yes.

CRAIG KUBICEK: So the-- we issued a management letter to the Department of Labor on unemployment insurance which included significant fraudulent claims, and so the issue we had was we thought, you know, there should be some sort of accounts receivable or accounts payable entry for those fraudulent claims, and we did not have sufficient audit-- audit evidence that the number presented was accurate.

STINNER: So tell me about fraudulent claims. Was there a lot of fraudulent-- These were identified by the Department of Labor of people that had made claims?

CRAIG KUBICEK: These were identified by the-- our office.

STINNER: Your office?

CRAIG KUBICEK: Yes. And so we did significant work with the-- on the Department of Labor as part of this year's CAFR. And we sent out samples to over 200 individuals. We had fraud within our-- one of our staff members within our agency that somebody tried to get unemployment on our-- on her behalf. And, you know, it's a separate manage-- again, it's a separate management letter, but there were significant fraudulent claims of unemployment insurance that-- that we had noted in a separate management letter.

STINNER: And is there a total on the-- on that?

CRAIG KUBICEK: On the fraudulent claims, there is not a total, but there's a total on the unemployment fund and it's-- it's more in detail on comment number two.

STINNER: OK.

CRAIG KUBICEK: But that total was $59-- $593 million. And it goes in-- where that comes from is a number of numbers on comment number two, which would be pages 5 and 6, so those make up that total of the 500-- so if you-- it's basically a chart.

STINNER: OK, and of course, the response is on page 7, I presume. Agency accrual errors, tell me about that or tell us about that.

CRAIG KUBICEK: Yeah. So these are, again, downstream a little bit from agencies that are presenting those numbers to DAS, like Senator Wishart presented or-- or acknowledged. You know, the hope would be that somebody is reviewing that before we-- we get those-- that information. And so when we audit, it would prevent, you know, not everything, not all issues, but it would prevent maybe the long list. So these are-- and we have-- also have other management letters to DHHS and other agencies for their errors. So we kind of brought those-- some of those forward, but we also have other management letters to them basically on those errors and their accruals that they've presented to DAS. So, again, it's not all DAS. It's-- it's downstream, as well, and so that's why hopefully we can get into some of these agencies that have issues year after year that we can get those corrected.

STINNER: Go ahead, continue to take us through four, five, six, and just [INAUDIBLE]

CRAIG KUBICEK: OK, four is just lack of financial statement reconciliation. DAS failed to reconcile the schedule. The CFA, basically schedule expenditures, of finan-- federal awards to the financial statements. So that's something we recommend, DAS implement procedures for reconciling the CFA to the financial statements, just something that would be good internal controls and making sure those numbers are correct. Number five, Enable Savings Plan, State Treasurer administers the plan, but [INAUDIBLE] is presented. However, the plans were not audited separately by the independent certified accountant, so we recommended DAS implement procedures to ensure fiduciary activity is complete and reported accurately, so just getting an audit of that plan. Number six is just payroll and benefit issues, no documentation for support of a 24 percent surcharge. One employee received a raise without performance review. I'm just kind of going through the criteria, so on that we recommended DAS implement procedures to ensure surcharges are calculated appropriately and supported, and benefit and payable procedures comply with applicable requirements. Number seven is postage deposits. Basically, agencies have on deposit for postage and there's a statute that recommends how that should be done, and it's been a while since that's been basically adjusted to, you know, current agencies and changes, so we recommend they look at that and do a periodic review to make sure that's adjusted appropriately.

STINNER: So based on what I'm seeing here, it's not just DAS, but this is a problem that is throughout the entire State Accounting systemwise.

CRAIG KUBICEK: Not every agency reports significant accruals, but there are several agencies that I would consider need to do better as far as what they're reporting to DAS, as far as their accruals for construction in progress. For example, you know, we have that as a separate management letter, and that went to DAS, Department of Health and Human Services, Corrections, Department of Transportation, Game and Parks, and Department of Veterans' Affairs. So that was one of the reasons we disclaimed the opinion was because that was such a big-- you know, again, we couldn't get enough audit evidence to make sure that number was correct. And so if you take a look at that, you know, it-- it's-- it's bigger than just DAS.

STINNER: So did you issue a qualified opinion on the financials, the CAFR?

CRAIG KUBICEK: We issued a disclaimer.

STINNER: That's great. Senator Wishart.

WISHART: Are there agencies that have significant financial responsibilities that do provide you with very clean financials? Can you give me an example?

CRAIG KUBICEK: It would probably-- it'd probably be those agencies that don't have a lot of accrual-type entries that are just relying on the State Accounting System for their, you know, revenues and expenses on a cash basis that wouldn't have much. You know, the bigger agencies, we-- we have issues and-- and have-- outside my head, I'm-- I'm-- I can't think of one that, you know is-- is-- I can get back to you on that. I-- I mean, day to day, I can get back to you on that as far as is there one agency that-- that we don't have, you know, sys-- errors every year, as far as the amounts that they're reporting to DAS.

WISHART: That would be helpful.

CRAIG KUBICEK: OK.

WISHART: That would be very, very helpful.

STINNER: Senator Kolterman.

KOLTERMAN: Yeah, Craig, thanks for being here. Yeah, you do a lot of work, though. You-- you manage-- or you audit all six of our retirement plans every year. Now that isn't going through DAS, but you don't have accounting problems with any of that, that I'm aware of, do you?

CRAIG KUBICEK: No.

KOLTERMAN: In fact, I get nothing but rave reviews about what they're doing in those plans and-- and how they're managing the plans. So this isn't an outlier to me. This-- I mean, we've got-- we've got departments that are doing a terrific job.

CRAIG KUBICEK: Yeah, I-- yeah, and I don't want to say-- I-- that's why I want to get back to you. I'm not-- I don't want to say nobody's doing a good job. I-- I mean, that was not my intent. I-- as far as preparing those and presenting those today DAS, I'd want to have some back information. Yeah, that was not my intent to say nobody's doing a good job. I mean, there's obviously audits that-- you know, an audit in general is not a positive thing. You know, we don't come out and say, wow, you did a great job. You know, we're always looking at-- looking at recommendations and those sort of things. But I'll-- we'll definitely get back to you on that as far as who-- as far as the CAFR process. You know, there's, you know, NPERS that you're referring to, yes, they-- you know, as far as those audits, those are usually very clean.

STINNER: Senator Erdman.

ERDMAN: Thank you, Senator Stinner. So those agencies you mentioned that have deficiencies. Who is to work with those agencies and bring them up to speed to do it correctly? Whose job is that, whose responsibility?

CRAIG KUBICEK: I mean, it's-- it's ultimately, in my mind, DAS's responsibility to make sure that they're getting correct numbers. I would think it would be the agency, you know, head that is putting people in position to give them accurate numbers. You know, if they're getting incorrect numbers year after year, you know, why is that? Is it, you know, the knowledge base? Is it-- what's the issue? And so while DAS is ultimately responsible for giving us the financials, I think it's, you know, sometimes more downstream of-- of those errors or issues.

ERDMAN: Can-- can you get us a list of those agencies you think need some improvement?

CRAIG KUBICEK: Yeah, definitely.

ERDMAN: That would be helpful.

CRAIG KUBICEK: Yep.

STINNER: Senator Hilkemann, did you have a question?

HILKEMANN: Yeah, I do. I-- in some ways, you-- you're giving me kind of a cavalier attitude about this whole report. And John Q. Public calls me up tonight and says, what's this, our state has a $21 billion auditing error, what's going on? I said, well, it's not a big deal, it's just these agencies. How do I answer that response?

CRAIG KUBICEK: I would-- I mean, I would say it's a big deal whenever the state does not get a clean opinion. I mean, the-- the state, you know, should be, you know, the frontrunner in showing everybody else how to, you know, set an example to have a clean audit opinion. I-- I manage or help manage our fraud hotline, so I always tend to see those, you know, missing money as-- as bigger deals, and-- and like we saw with Labor. You know, to me, that's a big deal when you got fraudulent money going out, taxpayer monies going out as big issues. The issues with the financial statements and the-- you know, some of these errors, somebody-- taxpayer money is not necessarily missing. So it kind of depends on-- on their, you know, knowledge base and-- and what they're thinking as far as where to go with this or what are the issues. To me, fraud is more than, you know, some of these errors, not to downplay it at all, but $21 billion in a list of errors is a big deal.

HILKEMANN: Yeah. I-- I-- I can just ima-- I don't know. That's just all. Thank you. I-- it-- it--

CRAIG KUBICEK: Yeah, I don't-- I didn't want to-- if I downplayed it, I'm-- I'm not trying to downplay it. I-- I'm just trying to give, you know, rational explanation for, you know, what we've seen, so.

STINNER: Senator Erdman.

ERDMAN: [INAUDIBLE]

HILKEMANN: So how far-- so how far are we behind? I mean, we-- is it $21 billion? What is the number?

CRAIG KUBICEK: Those-- so-- so we don't-- we don't go-- you know, this is a list, so we don't, you know, net the dollars. And these are basically errors that have been corrected and so, you know, if you look at last year's, you're going to see a listing of errors similar. We didn't total it last year, but if you would total it, it's going to be a significant dollar amount of errors that we noted in prior years.

STINNER: Did you qualify your opinion last year?

CRAIG KUBICEK: We did not.

STINNER: Qualified opinion a big deal, by the way. Senator Erdman.

ERDMAN: [INAUDIBLE] thank you. This will be my last question. So in your comments to Senator Hilkemann, you said something that was concerning. You said not necessarily missing. Define that, because I was-- I was under the impression that this was just an accounting error and we don't need to worry, there's no money missing. But when you say not necessarily missing, obviously, you don't know for sure that there's no money missing.

CRAIG KUBICEK: Well, part of that number is fraudulent claims of unemployment, and so that's money that's went out the door, that's, you know, pay and chase. We're trying to get that money back so that, that is money that-- you know, putting a dollar amount on how much is missing, that's where the--

ERDMAN: All right.

CRAIG KUBICEK: --you know, these numbers come from. But, yeah, I mean--

ERDMAN: Yeah.

CRAIG KUBICEK: --fraudulent claims have been paid.

ERDMAN: All right. I appreciate that.

CRAIG KUBICEK: Yep.

McDONNELL: I've got--

CRAIG KUBICEK: Senator McDonnell.

McDONNELL: Thank you for being here. Thanks for your work. So you mentioned that you didn't total it last year. Did you total it the year before?

CRAIG KUBICEK: No.

McDONNELL: When is the last time you totaled it?

CRAIG KUBICEK: I think this is the first year that we totaled it, trying to get some attention to, you know, some of these things that we see year after year.

McDONNELL: Thank you.

STINNER: The totaling of it, I think, supports the fact that they issued a disclaimer on their opinion. That's-- that's why they totaled it. If they didn't want to issue a disclaimer, I don't think you would have totaled it. Could happen, but that supports the conclusion that they can't issue a clean opinion on the financial statements of the state of Nebraska. Now there-- that's a-- that's unbelievable. Anyhow, additional questions? Sorry, and I-- I am a retired CPA. I will tell you, I've been there and done what he is trying to get done, so anyhow, thank you very much for [INAUDIBLE]

CRAIG KUBICEK: Thank you. We will follow-- definitely follow up this week on some of those that we-- I didn't address, so thank you for your time today.

STINNER: Thank you.

CLEMENTS: That concludes the hearing on--

STINNER: [INAUDIBLE]

CLEMENTS: --Agency 65.

ERDMAN: Does that conclude our hearings for today?

STINNER: That concludes our hearings for today, and I didn't mean to swear into the mike, but that's--