

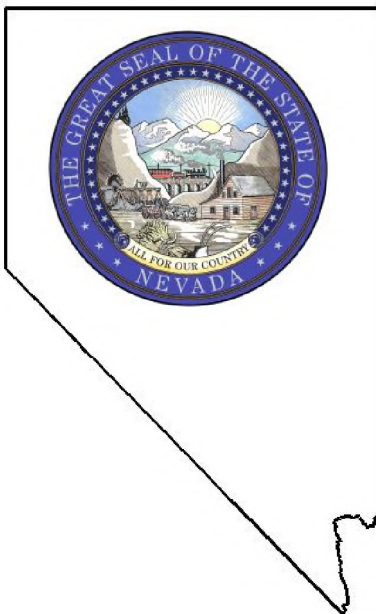
STATE OF NEVADA

Performance Audit

Governor's Office of Economic Development

Pandemic Relief and State Small
Business Credit Initiative
Assistance Programs

2023



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Governor's Office of Economic Development, Pandemic Relief and State Small Business Credit Initiative Assistance Programs issued on September 10, 2024.

Legislative Auditor report # LA24-16.

Background

The Governor's Office of Economic Development's (GOED) role is to provide a robust, diversified, and prosperous economy in Nevada by stimulating business expansion and retention, encouraging entrepreneurial enterprise, attracting new businesses, and facilitating community development. Our audit reviewed two pandemic-related small business programs and two programs associated with the federal State Small Business Credit Initiative (SSBCI).

GOED and the State Treasurer's Office jointly managed two programs to assist small businesses affected by the COVID-19 pandemic shutdowns. The Commercial Rental Assistance Program (CRAG) provided awards of up to \$10,000 to assist qualified small businesses with rent expenses due during the shutdown. The Pandemic Emergency Technical Support Program (PETS) provided payments of \$10,000 or \$20,000 directly to businesses to cover various operating expenditures, protective equipment, and retrofits due to the pandemic.

The federal government allocated \$13.8 million to Nevada in 2010 and Nevada's SSBCI was established in 2011. In 2021, the federal government infused additional funding into SSBCI. Nevada expects to receive over \$100 million in additional funds over the next few years. SSBCI currently consists of two components overseen by GOED. The Collateral Support Program provides cash collateral to accounts in Nevada financial institutions to enhance the collateral coverage of borrowers. The Battle Born Venture Capital Program provides equity and equity-like investments in start-up and growing Nevada companies.

Purpose of Audit

The purpose of the audit was to evaluate the adequacy of GOED's administration of certain economic investment and stimulus funding. This audit focused on program activities from January 1, 2020, to June 30, 2022.

Audit Recommendations

This audit report contains 14 recommendations to improve the administration and equitability of certain economic, investment, and stimulus funding.

The Governor's Office of Economic Development accepted the 14 recommendations.

Recommendation Status

The Governor's Office of Economic Development's 60-day plan for corrective action is due on December 9, 2024. In addition, the 6-month report on the status of audit recommendations is due on June 9, 2025.

Pandemic Relief and State Small Business Credit Initiative Assistance Programs

Governor's Office of Economic Development

Summary

GOED did not provide sufficient oversight to ensure businesses were appropriately awarded funds from the coronavirus relief programs it oversaw. While these programs provided important fiscal relief to businesses, proper oversight is necessary to ensure funds are distributed equitably and used in accordance with federal requirements. Our audit identified that the eligibility was questionable for more than 10% of the awardees that received funds from the PETS and CRAG programs. Specifically, businesses were awarded funds from the two programs while owing taxes and other debts to the State. Additionally, some awardees were late filing required tax returns or did not have an active Nevada state business license. Funds were provided to these businesses despite demand for awards exceeding available funding in one of the programs. Furthermore, monitoring of program recipients to ensure businesses spent funds appropriately did not occur.

GOED can improve fiscal oversight practices for administering and safeguarding financial assistance to small businesses. Additionally, information necessary to monitor and evaluate the SSBCI's performance was not collected, and program performance evaluations were not performed. Further, reports submitted to the Legislature did not contain all required information for proper oversight. Finally, legislative consideration is needed to ensure planned program restructuring maintains intended legislative oversight and transparency to the public about use of taxpayer funds.

Key Findings

For PETS, a total of 494 award recipients owed the State about \$5.6 million as of the March 1, 2020, program eligibility cutoff date. About \$704,000 was owed by 108 awardees on the State Controller's outstanding debt list. From the Department of Taxation's outstanding debt list, we identified 386 awardees owing about \$4.9 million. (page 7)

CRAG had a total of 69 award recipients owing approximately \$669,000 to the State, as of March 1, 2020. Most of debt owed came from 58 CRAG awardees, owing about \$660,000, on the Department of Taxation's debt list. There were also 11 CRAG awardees owing about \$9,000 who appeared on the Controller's outstanding debt list. (page 8)

GOED awarded funds to some businesses that had not filed timely tax returns with the State. A total of 623 PETS awardees appeared on the Department of Taxation's list having at least one late tax return as of March 1, 2020. A total of 66 CRAG awardees appeared on the Department of Taxation's late tax return list as of March 1, 2020. (page 9)

GOED provided proper oversight to ensure awardees for CRAG had a proper business license. However, for PETS, we identified 57 awardees who were given an award based on a state business license issued after the March 1, 2020, program eligibility cutoff date. (page 10)

In total, approximately \$10.7 million of Coronavirus Relief Funds were awarded to businesses whose eligibility under program requirements was questionable while other applicants received no funds. (page 10)

Applications for PETS were not processed timely. On average it took 144 days (or about 5 months) to process these applications. Per contract requirements, funds should have been awarded by the contractor within 60 days of the application submission date. (page 11)

Post-award monitoring was not performed to ensure program funds were spent as required. (page 12)

GOED has not established sufficient fiscal oversight practices for administering and safeguarding financial assistance to small businesses. GOED did not ensure required independent financial statement audits were performed by the Nevada Battle Born Growth Escalator, Inc. (NBBGEI) or ensure its bank accounts were properly safeguarded. (page 14)

GOED needs to improve monitoring activities over SSBCI and NBBGEI. NBBGEI held SSBCI cash and equity investments costing approximately \$3.6 million on behalf of the State. NBBGEI's holdings are expected to increase with the infusion of approximately \$100 million into the SSBCI by the federal government over the next few years. (page 16)

GOED did not have sufficient controls to ensure required information regarding the performance of NBBGEI was reported to the Legislature and posted on the internet. Insufficient reporting inhibits SSBCI program transparency and legislative oversight. (page 19)

During our audit, one contracted entity, providing services for NBBGEI, became unresponsive to our requests for meetings and documentation. While the limitations to records did not warrant modification of our audit conclusions, we believe they were significant enough to be disclosed in our report. (page 21)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Governor's Office of Economic Development, Pandemic Relief and State Small Business Credit Initiative Assistance Programs. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes 14 recommendations to improve the administration and equitability of certain economic, investment, and stimulus funding. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel L. Crossman".

Daniel L. Crossman, CPA
Legislative Auditor

August 26, 2024
Carson City, Nevada

Pandemic Relief and State Small Business Credit Initiative Assistance Programs

Table of Contents

Introduction	1
Background.....	1
Scope and Objective	4
Pandemic Relief Programs Lacked Sufficient Oversight and Accountability ...	6
Funds Awarded to Businesses Not Meeting Programs' Requirements	7
PETS Application Processing Time Slower Than Expected	11
Controls Needed to Ensure PETS Program Funds Were Spent Appropriately	12
Improvements Needed to Ensure Accountability and Transparency of Assistance for Small Businesses.....	14
Better Fiscal Practices Will Enhance Oversight and Safekeeping of SSBCI Program Funds	14
Improved Monitoring Needed For SSBCI Program's Accountability.....	16
Insufficient Reporting Inhibited Transparency.....	19
SSBCI Program's Restructuring May Reduce Legislative Oversight Abilities.....	21

Pandemic Relief and State Small Business Credit Initiative Assistance Programs

Table of Contents (continued)

Appendices

- A. Detailed Timeline of PETS Funding Authority vs. Expenditures 24
- B. Nevada Administrative Code 231.140 28
- C. Audit Methodology..... 29
- D. Response From the Governor’s Office of Economic Development..... 34

Introduction

Background

The Governor's Office of Economic Development (GOED) was created during the 2011 Legislative Session. GOED's role is to provide a robust, diversified, and prosperous economy in Nevada by stimulating business expansion and retention, encouraging entrepreneurial enterprise, attracting new businesses, and facilitating community development. The 11-member Board of Economic Development provides oversight of GOED. The Executive Director of GOED is appointed by the Governor and manages the daily activities.

The State, through GOED, offers a variety of incentives to help qualifying companies decide to locate their operations in Nevada. Some incentives offered include sales and use tax abatements on capital equipment purchases, abatements on personal and modified business taxes, and real property tax abatements for recycling. Our audit reviewed two pandemic-related small business programs and two programs associated with the federal State Small Business Credit Initiative (SSBCI) administered by GOED, which are further described below.

Pandemic-Related Relief Programs

GOED and the State Treasurer's Office jointly managed two programs to assist small businesses affected by the COVID-19 pandemic shutdowns. The Nevada Commercial Rental Assistance Grant Program was the first assistance program offered and the Pandemic Emergency Technical Support Program was the second. Both programs were administered by a contractor responsible for processing the applications and paying the awardees under the supervision of GOED, the state agency who signed the contracts. Funding for the programs was accounted for by GOED in its budget accounts. Both GOED and the Treasurer's Office participated in the day-to-day management of the program such as planning, final approval of awards, and reporting. However, as this audit was of GOED and GOED has

the primary responsibility for these programs, recommendations in this report are to GOED.

- Commercial Rental Assistance Grant Program – the Commercial Rental Assistance Grant Program (CRAG) provided awards of up to \$10,000 to assist qualified small businesses with rent expenses due during the pandemic shutdown. Payments were made directly to the businesses' landlords to cover rent due on a commercial lease. Funding for CRAG was provided by the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Approximately \$7.2 million was distributed to 777 businesses under CRAG. GOED paid approximately \$430,000 to the contractor for administering CRAG. About another \$12.2 million in funding authority was transferred from CRAG to support demand in the Pandemic Emergency Technical Support Program.
- Pandemic Emergency Technical Support Program – the Pandemic Emergency Technical Support Program (PETS) provided payments of \$10,000 or \$20,000 directly to businesses depending on the type of entity. PETS funds were available to cover various operating expenditures such as payroll, rent, and utilities. Funds also covered protective equipment and retrofits due to the COVID-19 pandemic. Funding for PETS consisted of \$52.2 million from the federal CARES Act and \$50 million from state funds. A total of about \$96.4 million was awarded to 9,389 businesses. Administrative fees paid to the contractor amounted to approximately \$5.8 million.

Nevada State Small Business Credit Initiative

The federal Small Business Jobs Act of 2010 allocated \$13.8 million to Nevada. The purpose of the Act was to increase small business lending and access to capital. SSBCI was established through the Interim Finance Committee in October 2011. To accomplish the federal objectives, at the time of our audit, SSBCI consisted of two components overseen by GOED, the Collateral Support Program and the Battle Born Venture Capital Program.

Collateral Support Program

The Collateral Support Program (CSP) provides cash collateral to accounts in Nevada financial institutions to enhance the collateral coverage of borrowers. Borrowers with a collateral shortfall may apply for the CSP through their participating Nevada financial institution. The financial institutions coordinate directly with GOED.

Once approved, the CSP deposits funds in an interest-bearing account, pledged as collateral on behalf of the borrower, at the participating financial institution. The accounts cover up to 35% of the calculated collateral shortfall as determined by the lending financial institution. In addition to the interest paid on the collateral account, the CSP earns income by charging fees to the financial institutions.

Funds from the accounts are returned to the state CSP as the borrower pays down the loan principal. In the event of default on the loan, the lending financial institution will have rights to funds in the collateral account based on the principal balance of the loan. From inception, CSP has provided collateral support for 33 businesses as of August 2023.

Battle Born Venture Capital Program

The Battle Born Venture Capital Program provides equity and equity-like investments in start-up and growing Nevada companies. Investments are made in businesses operating in any of 10 sectors including aerospace and defense, agriculture, energy, healthcare, information technology, logistical operations, manufacturing, mining, tourism and gaming, and water.

Program investments are held on behalf of the State by Nevada Battle Born Growth Escalator, Inc. (NBBGEI), a corporation for public benefit. Investments held by NBBGEI were managed through the University of Nevada, Reno's Nevada Small Business Development Center through a subcontract with an investment manager. To continue the SSBCI program past the federal sunset date, the Nevada Legislature authorized the creation of NBBGEI during the 2015 Legislative Session with the passage of Assembly Bill 17. Investments are held in a corporation for public benefit

because the Nevada Constitution prohibits the State from having direct ownership in private entities.

Battle Born Venture Capital Program seeks a return on investment and any proceeds are reinvested back into the Program. The goal of the Program is to be self-sustaining (an evergreen fund). From its inception through October 31, 2022, the Program has made equity investments in 15 companies. The Program has exited four of these investments with one exit resulting in a small profit. The Program has also partnered with two accelerators to generate more investment opportunities and has contracted with one early seed fund.

Federal Involvement in SSBCI Program

In 2017 the U.S. Treasury transferred the initial program and associated federal funds to state ownership. Beginning in the 2019-2021 biennium, the program was funded entirely through reserves, small business loan repayments, interest earnings, and filing fees.

In 2021 the federal government infused additional funding into the SSBCI program through the American Rescue Plan Act (ARPA). The Interim Finance Committee approved GOED to receive the initial wave of federal funding of \$35 million in September 2022. The program is expected to receive additional federal funding totaling over \$100 million over the next few years. The federal program for SSBCI, established through ARPA, is expected to sunset in 2030, transferring the federal SSBCI program to state control at that time.

Scope and Objective

The scope of our audit included a review of GOED's administration of investments and stimulus funding between January 1, 2020, and June 30, 2022. Our audit objective was to:

- Evaluate GOED's awarding, oversight, and monitoring of certain economic investment and stimulus funding.

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of Nevada Revised Statutes (NRS) 218G.010 to 218G.350. The Legislative Auditor conducts audits

as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

Pandemic Relief Programs Lacked Sufficient Oversight and Accountability

GOED did not provide sufficient oversight to ensure businesses were appropriately awarded funds from certain coronavirus relief programs it oversaw. While these programs provided important fiscal relief to businesses, proper oversight is necessary to ensure funds are distributed equitably and used in accordance with state and federal requirements. Our audit identified that the eligibility was questionable for more than 10% of the awardees that received funds from the PETS and CRAG programs. Specifically, businesses were awarded funds from the two programs while owing taxes and other debts to the State. Additionally, some awardees were late filing required state tax returns or did not have an active Nevada state business license. Funds were provided to these businesses despite demand for awards exceeding available funding in one of the programs. Furthermore, monitoring of program recipients to ensure businesses spent funds appropriately did not occur.

GOED and the State Treasurer's Office jointly managed the PETS and CRAG programs and participated in planning, award approvals, and reporting. Both programs were administered by a contractor responsible for processing applications and paying awardees under the supervision of GOED. GOED was responsible for signing the programs' contracts and the programs' funds were accounted for in GOED's budget. As this audit was of GOED and GOED has the primary responsibility for these programs, recommendations in this report are to GOED.

Funds Awarded to Businesses Not Meeting Programs' Requirements

GOED could have enhanced its oversight of the application process to ensure state and federal coronavirus relief funds were awarded to businesses considered in good standing with the State. Businesses were considered in good standing with the State if they were free of any federal, state, or local government loan, lien, or judgment. Participating businesses were also required to conduct operations in compliance with state laws and regulations and have an active business license. PETS and CRAG awardees signed an agreement representing their business was in good standing with the State. Businesses had to be in good standing and in operation on March 1, 2020, the programs' eligibility cutoff date.

We found award recipients from the PETS and CRAG programs were on the Department of Taxation's or the Office of the State Controller's delinquent debt lists prior to the pandemic. Other PETS award recipients did not provide sufficient documentation to show their business was in operation before the March 1, 2020, program eligibility cutoff date. Exhibit 1 displays a breakdown of awards by program with questionable eligibility.

Breakdown of Awards With Questionable Eligibility

Exhibit 1

Program/Description of Error	Number of Awards With Errors	Total Awards	Percentage of Errors to Total Awards
PETS Awards:			
Awardees on Department of Taxation's Delinquency List ⁽¹⁾	904	9,389	9.6%
Awardees on State Controller's Delinquency List	108	9,389	1.2%
Awardees with Insufficient Business License Documentation	57	9,389	0.6%
Totals – PETS Errors Identified	1,069	9,389	11.4%
CRAG Awards:			
Awardees on Department of Taxation's Delinquency List ⁽²⁾	110	777	14.2%
Awardees on State Controller's Delinquency List	11	777	1.4%
Totals – CRAG Errors Identified	121	777	15.6%

Source: Auditor testing of PETS and CRAG awards.

⁽¹⁾ The 904 PETS awardees on Taxation's list included 386 awardees who owed tax debt and 623 awardees who were late filing tax returns. There were 105 awardees on both lists.

⁽²⁾ The 110 CRAG awardees on Taxation's list included 58 awardees who owed tax debt and 66 awardees who were late filing tax returns. There were 14 awardees on both lists.

Some Award Recipients Owed Money to the State

For PETS, a total of 494 award recipients owed the State about \$5.6 million as of the March 1, 2020, program eligibility cutoff date.

These debts to the State were incurred prior to the beginning of the pandemic and its resulting impact on businesses' operations. About \$704,000 was owed by 108 awardees on the State Controller's outstanding debt list. From the Department of Taxation's outstanding debt list, we identified 386 awardees owing about \$4.9 million. While most of these PETS awardees owed less than \$500 to the State, about 100 awardees accounted for most of the total debt owed. Exhibit 2 breaks down the debt owed by PETS awardees.

**Distribution of PETS Awardees Owing Money to the State
As of March 1, 2020**

Exhibit 2

Range of Debt Owed	Awardee Count	Percentage of Awardees	Amount Owed by Awardees	Percentage of Total Debt Owed
\$1 to \$500	192	39%	\$ 37,272	0.7%
\$501 to \$1,000	64	13%	46,320	0.8%
\$1,001 to \$5,000	97	20%	248,371	4.5%
\$5,001 to \$10,000	40	8%	291,861	5.2%
Over \$10,000	101	20%	4,954,214	88.8%
Totals – PETS Awardees Owing Money to the State	494	100%	\$5,578,038	100.0%

Source: Auditor comparisons of PETS Awards List to Department of Taxation and State Controller's Debt Lists.

CRAG had a total of 69 award recipients owing approximately \$669,000 to the State, incurred as of March 1, 2020. These debts to the State were incurred prior to the beginning of the pandemic and its resulting impact on businesses' operations. Most of debt owed came from 58 CRAG awardees, owing about \$660,000, on the Department of Taxation's debt list. There were also 11 CRAG awardees owing about \$9,000 who appeared on the State Controller's outstanding debt list. Like the PETS, most businesses owed the State less than \$500. Exhibit 3 breaks down the debt owed by CRAG awardees.

**Distribution of CRAG Awardees Owing Money to the State
As of March 1, 2020**

Exhibit 3

Range of Debt Owed	Awardee Count	Percentage of Awardees	Amount Owed by Awardees	Percentage of Total Debt Owed
\$1 to \$500	26	38%	\$ 5,935	0.9%
\$501 to \$1,000	10	14%	6,499	1.0%
\$1,001 to \$5,000	17	25%	45,396	6.8%
\$5,001 to \$10,000	4	6%	32,416	4.8%
Over \$10,000	12	17%	578,372	86.5%
Totals – CRAG Awardees Owing Money to the State	69	100%	\$668,618	100.0%

Source: Auditor comparisons of CRAG Awards List to Department of Taxation and State Controller's Debt Lists.

Funds Provided to Some Businesses Not Filing Tax Returns

GOED awarded funds to some businesses that had not filed timely tax returns with the State. PETS and CRAG award recipients were required to conduct their business affairs in compliance with state laws as a condition of receiving an award. Various Nevada laws require businesses to collect, report (file a tax return), and pay taxes. In addition to tracking businesses with confirmed tax debt, the Department of Taxation's list tracks businesses that are late filing an expected tax return. Businesses with late tax returns may or may not owe debt. Any debt associated with the late returns must be confirmed by Department of Taxation staff. Our analysis of PETS and CRAG awardees found the following:

- PETS – A total of 623 PETS awardees appeared on the Department of Taxation's list having at least one late tax return as of March 1, 2020. Of the 623 awardees, 105 had confirmed debt and were also included in the total awardees discussed previously in the report.
- CRAG – A total of 66 CRAG awardees appeared on the Department of Taxation's late tax return list as of March 1, 2020. Of the 66 awardees, 14 had confirmed debt and were also included in the total awardees discussed previously in the report.

The list obtained from the Department of Taxation included businesses late in filing tax returns due before March 1, 2020.

Many businesses were shut down due to the pandemic via Executive Order on March 12, 2020. Therefore, these businesses were late filing returns before the pandemic shutdown date. Providing awards to these businesses is inequitable to businesses who filed required tax returns timely but did not get an award due to funds no longer being available.

Funds Provided to Some Businesses Without Business License

Eligibility for PETS and CRAG awards required businesses be in operation before, and have an active Nevada state business license on March 1, 2020. We found GOED provided proper oversight to ensure awardees for CRAG had a proper business license.

However, for PETS we identified 57 awardees who were given an award based on a state business license issued after March 1, 2020. For 5 of the 57 businesses, the state business license was issued after October 14, 2020, the public announcement date for PETS. Further, 19 of the 57 awardees' business licenses were in default status one year after issuance.

Awards were given to these businesses because GOED did not ensure the eligibility requirement of having an active business license was strictly enforced by the contractor. According to program management, awards were provided to some businesses without an active state business license if they arranged to obtain the license with the State during the application process.

Funds Could Have Been Awarded to Other Eligible Businesses

In total, approximately \$10.7 million of Coronavirus Relief Funds (CRF) were awarded to businesses whose eligibility under program requirements was questionable while other applicants received no funds. We identified 66 PETS applicants who did not receive an award because PETS funds were exhausted. Based on available records, there were also 626 unprocessed PETS applications. The approximate requested award amount for these businesses was \$6.9 million.

An unknown number of additional small businesses may have submitted PETS applications had applications been accepted through the entire advertised period. The planned period for accepting PETS applications was from October 19, 2020, through October 30, 2020. However, the program stopped accepting applications 4 days into the application period on October 22, 2020. According to management at the State Treasurer's Office, the application period was not strictly followed due to a higher than anticipated demand. Additionally, the high demand caused the program's application processing computer system, maintained by the contractor, to malfunction.

PETS Application Processing Time Slower Than Expected

Applications for PETS were not processed timely. Per contract terms, the contractor was required to complete the PETS application, intake, approval, and funding processes within 60 days. Testing revealed 46 of 50 awards randomly sampled were not processed timely. On average it took 144 days (or about 5 months) to process these applications. Timely application processing was needed to quickly relieve financial hardships of small businesses that experienced revenue loss due to the pandemic. Exhibit 4 shows the processing time of the 50 applications tested.

Processing Times of PETS Application Testing Exhibit 4

Processing Time	Number of Applications	Percentage of Sample
<u>Applications Processed Timely</u>		
60 Days or Less	4	8%
<u>Applications Processed Untimely</u>		
61 to 90 Days	6	12%
91 to 120 Days	12	24%
121 to 150 Days	2	4%
151 to 180 Days	13	26%
Over 180 Days	13	26%
Total Untimely Processed Applications	46	92%
Total Applications Tested	50	100%

Source: Auditor analysis of a sample of 50 approved applications selected from the total population of approved PETS applications.

GOED did ensure applications for CRAG were processed timely within contract requirements. Conversely, processing times for

PETS were slower than expected because GOED did not sufficiently monitor the contractor to ensure compliance with times established in the contract. Additionally, program management indicated a larger than expected volume of contracts, malfunctions of the application processing computer system, and delays in Legislative approval of funding also contributed to the slower processing times. Our analysis revealed Legislative funding approval was not a significant factor as funding was authorized before it was fully spent down. Appendix A, on page 24, provides a timeline of PETS funding approval versus expenditures.

Controls Needed to Ensure PETS Program Funds Were Spent Appropriately

Post-award monitoring was not performed to ensure PETS program funds were spent as required. During a September 2020 legislative hearing on PETS, legislators expressed the need for accountability. Program management from the Treasurer's Office testified accountability would be accomplished by requiring the applicants to submit a spending plan with the application and by periodically auditing selected businesses. Our discussions with program management revealed no post-award monitoring was performed. Additionally, our review of applicant spending plans revealed many were incomplete as follows.

- Incomplete Spending Plans – For 324 of the total 9,389 PETS awardees, the total amounts listed in the businesses' expenditure plans was less than the total amount awarded. These 324 awardees provided insufficient detail to demonstrate how approximately \$804,000 was planned to be expended in accordance with federal requirements.

Post-award monitoring is important for establishing accountability and to ensure funds were appropriately spent. Of the \$102 million spent on PETS, \$50 million was state funds approved by the Legislature. Post-award monitoring was not specifically required for federal funds. However, as previously noted, post-award auditing was presented to the Legislature as an accountability measure. Additionally, all CRF payments are subject to audit by the federal government. The federal government also holds the State responsible when recouping funds not used in compliance with program requirements.

Recommendations

1. Ensure established criteria is strictly followed when awarding funds.
2. Establish policies and procedures for monitoring contractors to ensure compliance with contract requirements, laws, and regulations.
3. Enhance accountability in future programs by performing post-award monitoring of awardees.

Improvements Needed to Ensure Accountability and Transparency of Assistance for Small Businesses

GOED can improve fiscal oversight practices for administering and safeguarding financial assistance to small businesses. Additionally, information necessary to monitor and evaluate the SSBCI's performance was not collected and program performance evaluations were not performed. Further, reports submitted to the Legislature did not contain all required information for proper oversight. Finally, legislative consideration is needed to ensure planned program restructuring maintains intended legislative oversight and transparency to the public about use of taxpayer funds.

Better Fiscal Practices Will Enhance Oversight and Safekeeping of SSBCI Program Funds

GOED needs to improve fiscal oversight practices of the SSBCI program to properly safeguard program funds. GOED did not ensure required financial audits were performed. Also, program checkbooks were not adequately safeguarded and GOED did not sufficiently track signing authority on program bank accounts. Further, fiscal duties were not adequately segregated and certain fiscal records were not maintained.

- Lack of Financial Audits – GOED did not ensure required independent financial statement audits were performed of NBBGEI during the first 4 years of the corporation's operations. NBBGEI is the corporation for public benefit formed to hold the equity investments, made by the SSBCI program, on behalf of the State. Financial audits are required by state regulation and are a key part of the accountability reports required to be submitted to the Legislature. Program management indicated they were not aware of the regulation requiring an annual audit.

- Insufficient Security of Bank Account – During the audit, GOED mailed an SSBCI program checkbook to an employee residing out of state. The employee was in the process of terminating their employment with the State. Approximately \$1.47 million was in the account at the time the checkbook was in the employee's possession. GOED did not adequately track which employees had signing authority on the program's bank account. GOED believed other employees had signing authority on the account when they actually did not. Not tracking signing authority also resulted in a GOED employee who did not have signing authority signing a check on the program's bank account. This check was processed by the bank even though the signer of the check was not authorized. Although improperly endorsed, the check appeared to be for a legitimate transaction and not for fraudulent purposes.
- Improper Segregation of Duties – Our testing found, for six of eight disbursements tested, the same GOED employee who signed the check or wire transfer documentation also prepared the accounting records and reconciled the bank account. Segregating these key duties among different employees reduces the risk of fraudulent transactions.
- Insufficient Disbursement Records – GOED needs to improve its record keeping practices for the SSBCI program. For two of eight disbursements tested, sufficient documentation was not available evidencing who signed the wire transfer form. Additionally, 7 of 14 collateral support agreements reviewed were missing one or more signatures of the contracting parties.

While we identified various control deficiencies associated with GOED's fiscal oversight practices of the SSBCI program, none of these were indicative of fraud or abuse based on our analysis. However, better controls are needed to properly safeguard program funds.

Improved Monitoring Needed For SSBCI Program's Accountability

GOED needs to improve monitoring activities over the SSBCI program and NBBGEI. Specifically, required reports from NBBGEI, the investment manager, and program investees were not submitted or were incomplete. Collection of these reports is necessary for program performance monitoring, certifying NBBGEI is furthering the public interest and legislative oversight.

As of June 30, 2021, NBBGEI held SSBCI program cash and equity investments costing approximately \$3.6 million on behalf of the State. NBBGEI's holdings are expected to increase with the infusion of approximately \$100 million into the program by the federal government over the next few years. The Interim Finance Committee authorized receipt of about \$35 million of the additional federal funds on September 14, 2022.

Required Annual Reports Not Obtained From Nonprofit Corporation

GOED did not collect required annual reports from NBBGEI. These annual reports contain information required by state regulation necessary for monitoring program performance and transparency such as:

- A summary of NBBGEI's audited financial statements;
- A review of the progress reports submitted by businesses which NBBGEI made loans or loan guarantees to or investments in;
- A summary of policies and procedures of NBBGEI for performing due diligence before making loan guarantees or investments;
- A summary of policies and procedures adopted to avoid conflicts of interest; and
- Evidence personnel involved with the oversight and operations of NBBGEI are free from conflicts of interest.

GOED indicated monitoring of NBBGEI's performance was accomplished by performing the SSBCI program manager functions such as approving every program transaction. However,

collection of the information specified in state regulation is important for ensuring public transparency and to assist the Executive Director in evaluating NBBGEI. All information collected in the annual report, not deemed proprietary, must be posted on the internet. Additionally, the Executive Director of GOED must evaluate the information when making the annual certification that NBBGEI is furthering the public interest.

Progress Reports Not Collected From Investees

Our audit found GOED did not ensure progress reports were collected from the 11 open investments held by NBBGEI during our audit period. NBBGEI's policies and procedures require standard quarterly investment reports be included in all investment agreements and require the investment manager collect and distribute these reports to GOED. State regulation requires a review of progress reports submitted by any business to which NBBGEI makes a loan, loan guarantee, or investment and must be included in NBBGEI's annual report.

Management indicated progress reports were originally collected; however, the practice was stopped in 2017 when the program moved from federal to state control. Our review concluded progress reports were also not collected because reporting requirements were not consistently included in all investment agreements. Testing revealed 5 of the 11 open investment agreements did not contain required reporting provisions. Furthermore, for the six investment agreements containing reporting requirements, the information requested was not consistent.

Investment Manager Reports Lacked Evidence Required Progress Meetings With Investees Took Place

Although monthly reports from the investment manager were submitted timely during our audit period, the reports did not consistently provide the status and progress of all businesses provided financial assistance under the program. GOED has a contractual relationship with an investment manager who is responsible for overseeing the investments held by NBBGEI on behalf of the State. NBBGEI's policies and procedures require the investment manager meet with investee businesses monthly.

Policies and procedures further require the investment manager report the status and progress of each investment monthly to GOED.

GOED did not ensure information submitted by the investment manager was complete. Our testing found GOED did not receive routine monthly updates for 11 investments held by NBBGEI. Not ensuring monthly reports contained status updates for each investment limits the documentary evidence showing required monthly meetings with investees were performed by the investment manager.

Program Assessments Not Performed

GOED did not perform annual assessments to evaluate whether NBBGEI is furthering the public's interest. State regulations require the Executive Director of GOED evaluate the information submitted by NBBGEI in their annual report. Based on the evaluation, the Executive Director is required to annually certify NBBGEI is meeting the public interest and post the information on the internet. State regulation, Nevada Administration Code 231.140, indicates the Executive Director of GOED may include the following items in the assessment:

- An evaluation of the return on investments resulting from any loan, loan guarantee, or investment made by NBBGEI;
- The number of jobs created or retained as a result of NBBGEI's activities;
- A projection of the increase in tax revenue resulting from NBBGEI's activities; and
- The number of businesses created, retained, or expanded because of NBBGEI's activities.

GOED's role is to provide a robust, diversified, and prosperous economy in Nevada by stimulating business expansion and retention, encouraging entrepreneurial enterprise, attracting new businesses, and facilitating community development. Without an annual assessment and certification by the Executive Director, the

public and Legislature has less assurance the activities of NBBGEI are furthering the State's interests.

Insufficient Reporting Inhibited Transparency

GOED did not establish a sufficient process for reporting SSBCI program information. Further, information reported in NBBGEI's financial statements does not fully reflect the current financial position of the corporation for public benefit. Reporting provisions were requested by the Legislature and promised by GOED during approval for the formation of the nonprofit. The intent when establishing the reporting requirements was to help ensure transparency and oversight of the NBBGEI. Insufficient reporting inhibits program transparency and legislative oversight.

Insufficient Reports Submitted to the Legislature

GOED did not have sufficient controls to ensure required information regarding the performance of NBBGEI was reported to the Legislature and posted on the internet. State law requires NBBGEI present an annual report to the Legislature and Governor. State regulations specify additional details regarding the content of the report. Our testing revealed GOED submitted reports timely to the Legislature; however, reports did not contain all required information. For example:

- Accounting of Money Not Sufficient – Reports to the Legislature contained only a single dollar amount describing the net amount of money received and expended by the program. In addition, reports did not include a summary of NBBGEI's annual audited financial statements;
- Details on Investments Not Sufficient – Reports to the Legislature contained the names and a brief description of all businesses invested in by NBBGEI. However, reports did not contain a summary of the progress reports submitted by businesses participating in the SSBCI program; and
- No Certification – Reports to the Legislature did not contain a certification by the Executive Director of GOED that NBBGEI continues to further the public interest in

economic development, or information to support the certification.

During formation of NBBGEI, members of the Legislature also expressed concern regarding transparency, oversight, and accountability. To mitigate these concerns, the Legislature implemented safeguards such as reporting requirements. Insufficient reporting inhibits SSBCI program transparency and legislative oversight.

NBBGEI's Financial Statements Not Reflective of Current Financial Position

Review of NBBGEI's fiscal year 2021 financial statements revealed investments were not reported in accordance with Generally Accepted Accounting Principles (GAAP). GAAP is a set of accounting principles which are accepted as best practice in the United States of America and are the required standard for the State's financial reporting. These standards require investments be reported on the financial statements based on their fair market value. The investments on NBBGEI's financial statements were reported on a cost basis, the value at the time the State invested in each business.

The fair market value is the price an investment would currently sell for on the open market. Investments recorded at cost reflect what NBBGEI paid at the time of investment. The value of an investment can vary widely over time, depending on the performance of the investee. Thus, recording investments at fair market value more accurately reflects the financial position of NBBGEI at the time of financial statement preparation. According to GOED management, venture capital programs traditionally do not value investments at market value because the fair market value of private equity is not readily available.

The goal of NBBGEI is to be self-sustaining. Because NBBGEI's financial statements may not precisely reflect the fair market value of the State's holdings, the Legislature should be cautious when using the financial statements to evaluate whether the goal is being achieved.

SSBCI Program's Restructuring May Reduce Legislative Oversight Abilities

During our audit, one contracted entity providing services for NBBGEI, became unresponsive to our requests for meetings and for documentation. Additionally, some SSBCI program staff expressed concern with our authority to access records belonging to NBBGEI. Limitations on access to program records was caused in part by GOED inconsistently including provisions in contracts providing for our ability to access records. Further, uncertainty regarding our oversight authority of NBBGEI was partially caused by the belief that NBBGEI was separate from the State. While the limitations to records did not warrant modification of our audit conclusions, we believe they were significant enough to be disclosed in our report.

Record Access Not Consistently Included in Contracts

GOED management testified our access to confidential information held by NBBGEI would not be impacted during legislative hearings authorizing the formation of NBBGEI. In spite of their testimony, GOED did not consistently ensure our access to program records. In 2017, GOED entered into a contract with NBBGEI for NBBGEI to act as custodian of certain equity holdings for the benefit of the State. The record inspection provisions for the Legislative Auditor were not included in the main contract between GOED and NBBGEI even though provisions were included in other contracts and subcontracts of the SSBCI program.

SSBCI Program Changes Could Increase NBBGEI's Separation From State

GOED management testified that the State was the owner of NBBGEI during hearings authorizing the formation of the corporation for public benefit. GOED staff cooperated with our audit; however, staff did express concerns regarding our access to NBBGEI records due to the separate status between NBBGEI and the State. Further, staff indicated with the addition of new federal funding the separation between NBBGEI and the State could increase. State law provides that the Executive Director of GOED is the chairman of the board of directors of NBBGEI. According to program staff, separation of NBBGEI would be accomplished, in part, through modification of the current corporate bylaws

removing certain executive functions of the NBBGEI from the chairman of the board (Executive Director).

The SSBCI program was originally funded with \$13.8 million of federal funds in 2011. In 2021, the federal government revived the program and to date has provided the State with an additional \$35 million. Total federal funding for the new version of the program is expected to exceed \$100 million. Members of the Legislature indicated although the program is federally funded, the funds are still tax dollars. Therefore, the public needs to know where those dollars went, how the transaction benefits the taxpayers, under what conditions they were given, and whether those conditions were upheld. During formation of NBBGEI, members of the Legislature also expressed concern regarding transparency, oversight, and accountability. To address these concerns, the Legislature implemented safeguards such as legislative appointment of two NBBGEI board of directors, and assignment of GOED's Executive Director as chairman of NBBGEI's board.

Legislatively appointed NBBGEI board members should consider the appropriate level of state oversight needed before modifying the existing oversight structure. Additionally, legislatively appointed board members should ensure modifications to bylaws of the nonprofit and all contracts binding the nonprofit do not hinder the Legislature's ability to provide appropriate oversight. Additionally, the Legislature should consider whether any changes to the SSBCI program structure meet the oversight intention of the program.

Recommendations

4. Ensure the Nevada Battle Born Growth Escalator, Inc. (NBBGEI) receives required annual independent financial statement audits.
5. Implement controls to properly safeguard the State Small Business Credit Initiative checkbook and ensure these controls are strictly followed.
6. Ensure signing authority for NBBGEI's bank accounts are properly tracked.

7. Ensure proper segregation of duties over disbursements, recordkeeping, and reconciling of NBBGEI fiscal transactions.
8. Ensure authorization for NBBGEI's disbursement transactions are documented.
9. Collect annual performance reports from NBBGEI and ensure the reports contain all required information.
10. Ensure progress reports are collected from all businesses NBBGEI invests in or guarantees loans on behalf of during the period the investment or loan is active.
11. Develop consistent reporting requirements for investee businesses and ensure the requirements are included in all investment agreements.
12. Perform and document annual assessments certifying NBBGEI is furthering the public interest and publish the required information on the internet.
13. Develop policies and procedures to ensure reports submitted to the Legislature and posted on the internet contain all required information.
14. Ensure contracts between GOED and NBBGEI and between NBBGEI and its subcontractors contain provisions for legislative oversight and inspection of records.

Appendix A

Detailed Timeline of PETS Funding Authority vs. Expenditures

Date	Event	Federal Funds	State Funds	Expenditures	Remaining Federal Funds	Remaining State Funds
Sep. 25, 2020	IFC Approval Federal Funding	\$20,000,000	\$ -	\$ -	\$20,000,000	\$ -
Nov. 30, 2020	Award Distribution #1	-	-	1,150,000	18,850,000	-
Dec. 04, 2020	Award Distribution #2	-	-	3,510,000	15,340,000	-
Dec. 08, 2020	Award Distribution #3	-	-	2,120,000	13,220,000	-
Dec. 10, 2020	Award Distribution #4	-	-	1,980,000	11,240,000	-
Dec. 11, 2020	Award Distribution #5	-	-	2,010,000	9,230,000	-
Dec. 14, 2020	Award Distribution #6	-	-	650,000	8,580,000	-
Dec. 15, 2020	Award Distribution #7	-	-	2,100,000	6,480,000	-
Dec. 16, 2020	Award Distribution #8	-	-	1,070,000	5,410,000	-
Dec. 18, 2020	Award Distribution #9	-	-	880,000	4,530,000	-
Dec. 18, 2020	IFC Approval Federal Funding	31,000,000	-	-	35,530,000	-
Dec. 21, 2020	Contractor Payment #1	-	-	1,609,434	33,920,566	-
Dec. 21, 2020	Award Distribution #10	-	-	1,560,000	32,360,566	-
Dec. 22, 2020	Award Distribution #11	-	-	2,210,000	30,150,566	-
Dec. 23, 2020	Award Distribution #12	-	-	1,100,000	29,050,566	-
Dec. 24, 2020	Award Distribution #13	-	-	2,640,000	26,410,566	-
Dec. 29, 2020	Award Distribution #14	-	-	1,570,000	24,840,566	-
Dec. 30, 2020	Award Distribution #15	-	-	800,000	24,040,566	-
Dec. 31, 2020	Award Distribution #16	-	-	1,530,000	22,510,566	-
Jan. 06, 2021	Award Distribution #17	-	-	970,000	21,540,566	-
Jan. 07, 2021	Award Distribution #18	-	-	1,750,000	19,790,566	-
Jan. 08, 2021	Award Distribution #19	-	-	480,000	19,310,566	-
Jan. 11, 2021	Award Distribution #20	-	-	3,460,000	15,850,566	-
Jan. 12, 2021	Award Distribution #21	-	-	1,010,000	14,840,566	-
Jan. 14, 2021	Award Distribution #22	-	-	690,000	14,150,566	-
Jan. 15, 2021	Award Distribution #23	-	-	550,000	13,600,566	-
Jan. 19, 2021	Award Distribution #24	-	-	1,020,000	12,580,566	-
Jan. 20, 2021	Award Distribution #25	-	-	2,190,000	10,390,566	-
Jan. 22, 2021	Award Distribution #26	-	-	410,000	9,980,566	-
Jan. 22, 2021	Award Distribution #27	-	-	250,000	9,730,566	-
Jan. 28, 2021	Award Distribution #28	-	-	290,000	9,440,566	-
Jan. 29, 2021	Award Distribution #29	-	-	380,000	9,060,566	-
Feb. 03, 2021	Award Distribution #30	-	-	420,000	8,640,566	-
Feb. 03, 2021	Award Distribution #31	-	-	210,000	8,430,566	-
Feb. 05, 2021	Award Distribution #32	-	-	500,000	7,930,566	-
Feb. 08, 2021	Award Distribution #33	-	-	670,000	7,260,566	-
Feb. 08, 2021	Award Distribution #34	-	-	570,000	6,690,566	-
Feb. 09, 2021	Award Distribution #35	\$ -	\$ -	\$ 350,000	\$ 6,340,566	\$ -

Appendix A

Detailed Timeline of PETS Funding Authority vs. Expenditures (continued)

Date	Event	Federal Funds	State Funds	Expenditures	Remaining Federal Funds	Remaining State Funds
Feb. 11, 2021	Award Distribution #36	\$ -	\$ -	\$ 690,000	\$ 5,650,566	\$ -
Feb. 12, 2021	Award Distribution #37	-	-	590,000	5,060,566	-
Feb. 12, 2021	Governor Approval State Funds ⁽¹⁾	-	50,000,000	-	5,060,566	50,000,000
Feb. 17, 2021	Award Distribution #38	-	-	310,000	4,750,566	50,000,000
Feb. 19, 2021	Award Distribution #39	-	-	400,000	4,350,566	50,000,000
Feb. 24, 2021	Award Distribution #40	-	-	480,000	3,870,566	50,000,000
Feb. 25, 2021	Contractor Payment #2	-	-	786,366	3,084,200	50,000,000
Mar. 01, 2021	Award Distribution #41	-	-	370,000	2,714,200	50,000,000
Mar. 02, 2021	Award Distribution #42	-	-	340,000	2,374,200	50,000,000
Mar. 02, 2021	Award Distribution #43	-	-	850,000	1,524,200	50,000,000
Mar. 04, 2021	Award Distribution #44	-	-	460,000	1,064,200	50,000,000
Mar. 04, 2021	Award Distribution #45	-	-	570,000	494,200	50,000,000
Mar. 10, 2021	Award Distribution #46	-	-	5,710,000	-	44,784,200
Mar. 11, 2021	Award Distribution #47	-	-	1,630,000	-	43,154,200
Mar. 11, 2021	Award Distribution #48	-	-	640,000	-	42,514,200
Mar. 18, 2021	Award Distribution #49	-	-	760,000	-	41,754,200
Mar. 18, 2021	Award Distribution #50	-	-	740,000	-	41,014,200
Mar. 18, 2021	Award Distribution #51	-	-	870,000	-	40,144,200
Mar. 22, 2021	Award Distribution #52	-	-	1,220,000	-	38,924,200
Mar. 24, 2021	Award Distribution #53	-	-	540,000	-	38,384,200
Mar. 26, 2021	Award Distribution #54	-	-	1,320,000	-	37,064,200
Mar. 26, 2021	Award Distribution #55	-	-	900,000	-	36,164,200
Mar. 31, 2021	Award Distribution #56	-	-	1,030,000	-	35,134,200
Mar. 31, 2021	Contractor Payment #3	-	-	490,800	-	34,643,400
Apr. 01, 2021	IFC Approval Federal Funding	1,167,439	-	-	1,167,439	34,643,400
Apr. 06, 2021	Award Distribution #57	-	-	810,000	357,439	34,643,400
Apr. 07, 2021	Award Distribution #58	-	-	1,060,000	-	33,940,839
Apr. 07, 2021	Award Distribution #59	-	-	1,090,000	-	32,850,839
Apr. 12, 2021	Award Distribution #60	-	-	720,000	-	32,130,839
Apr. 12, 2021	Award Distribution #61	-	-	660,000	-	31,470,839
Apr. 14, 2021	Award Distribution #62	-	-	790,000	-	30,680,839
Apr. 19, 2021	Award Distribution #63	-	-	1,040,000	-	29,640,839
Apr. 19, 2021	Award Distribution #64	-	-	1,050,000	-	28,590,839
Apr. 22, 2021	Award Distribution #65	-	-	1,110,000	-	27,480,839
Apr. 22, 2021	Award Distribution #66	-	-	870,000	-	26,610,839
Apr. 30, 2021	Award Distribution #67	-	-	1,220,000	-	25,390,839
Apr. 30, 2021	Award Distribution #68	-	-	1,050,000	-	24,340,839
Apr. 30, 2021	Award Distribution #69	-	-	840,000	-	23,500,839
May 04, 2021	Contractor Payment #4	\$ -	\$ -	\$ 921,600	\$ -	\$ 22,579,239

⁽¹⁾ Addition of state funding approved via Assembly Bill 106 during the 2021 Legislative Session.

Appendix A

Detailed Timeline of PETS Funding Authority vs. Expenditures (continued)

Date	Event	Federal Funds	State Funds	Expenditures	Remaining Federal Funds	Remaining State Funds
May 07, 2021	Award Distribution #70	\$ -	\$ -	\$ 780,000	\$ -	\$21,799,239
May 07, 2021	Award Distribution #71	-	-	660,000	-	21,139,239
May 10, 2021	Award Distribution #72	-	-	540,000	-	20,599,239
May 17, 2021	Award Distribution #73	-	-	600,000	-	19,999,239
May 20, 2021	Award Distribution #74	-	-	840,000	-	19,159,239
May 20, 2021	Award Distribution #75	-	-	650,000	-	18,509,239
May 25, 2021	Award Distribution #76	-	-	640,000	-	17,869,239
May 25, 2021	Award Distribution #77	-	-	810,000	-	17,059,239
May 28, 2021	Award Distribution #78	-	-	910,000	-	16,149,239
May 28, 2021	Award Distribution #79	-	-	450,000	-	15,699,239
Jun. 01, 2021	Award Distribution #80	-	-	760,000	-	14,939,239
Jun. 02, 2021	Contractor Payment #5	-	-	557,074	-	14,382,165
Jun. 02, 2021	Contractor Payment #6	-	-	67,526	-	14,314,639
Jun. 03, 2021	Award Distribution #81	-	-	800,000	-	13,514,639
Jun. 03, 2021	Award Distribution #82	-	-	770,000	-	12,744,639
Jun. 08, 2021	Award Distribution #83	-	-	810,000	-	11,934,639
Jun. 08, 2021	Award Distribution #84	-	-	800,000	-	11,134,639
Jun. 08, 2021	Award Distribution #85	-	-	510,000	-	10,624,639
Jun. 08, 2021	Award Distribution #86	-	-	460,000	-	10,164,639
Jun. 15, 2021	Award Distribution #87	-	-	930,000	-	9,234,639
Jun. 15, 2021	Award Distribution #88	-	-	800,000	-	8,434,639
Jun. 22, 2021	Award Distribution #89	-	-	790,000	-	7,644,639
Jun. 23, 2021	Award Distribution #90	-	-	1,480,000	-	6,164,639
Jun. 24, 2021	Award Distribution #91	-	-	580,000	-	5,584,639
Jun. 25, 2021	Award Distribution #92	-	-	330,000	-	5,254,639
Jun. 25, 2021	Award Distribution #93	-	-	340,000	-	4,914,639
Jun. 30, 2021	Award Distribution #94	-	-	580,000	-	4,334,639
Jun. 30, 2021	Award Distribution #95	-	-	540,000	-	3,794,639
Jul. 01, 2021	Award Distribution #96	-	-	430,000	-	3,364,639
Jul. 02, 2021	Award Distribution #97	-	-	200,000	-	3,164,639
Jul. 06, 2021	Award Distribution #98	-	-	130,000	-	3,034,639
Jul. 08, 2021	Award Distribution #99	-	-	240,000	-	2,794,639
Jul. 09, 2021	Contractor Payment #7	-	-	526,800	-	2,267,839
Jul. 09, 2021	Award Distribution #100	-	-	40,000	-	2,227,839
Jul. 09, 2021	Award Distribution #101	-	-	160,000	-	2,067,839
Jul. 14, 2021	Award Distribution #102	-	-	120,000	-	1,947,839
Jul. 14, 2021	Award Distribution #103	-	-	110,000	-	1,837,839
Jul. 20, 2021	Award Distribution #104	-	-	160,000	-	1,677,839
Jul. 20, 2021	Award Distribution #105	\$ -	\$ -	\$ 100,000	\$ -	\$ 1,577,839

Appendix A

Detailed Timeline of PETS Funding Authority vs. Expenditures (continued)

Date	Event	Federal Funds	State Funds	Expenditures	Remaining Federal Funds	Remaining State Funds
Jul. 20, 2021	Award Distribution #106	\$ -	\$ -	\$ 230,000	\$ -	\$ 1,347,839
Jul. 21, 2021	Award Distribution #107	-	-	224,377	-	1,123,462
Jul. 22, 2021	Award Distribution #108	-	-	120,000	-	1,003,462
Jul. 23, 2021	Award Distribution #109	-	-	120,000	-	883,462
Jul. 23, 2021	Award Distribution #110	-	-	60,000	-	823,462
Aug. 13, 2021	Contractor Payment #8	-	-	644,400	-	179,062
Aug. 13, 2021	Contractor Payment #9	\$ -	\$ -	\$ 179,062	\$ -	\$ -
Total Payments to Contractor				\$ 5,783,062		
Total Award Payments				\$ 96,384,377		
Cumulative Total Expenditures				\$102,167,439		
Cumulative Total Revenues		\$52,167,439	\$50,000,000			

Source: Auditor analysis of the state accounting system, contractor invoices, and Legislative minutes.

Appendix B

Nevada Administrative Code 231.140

NAC 231.140 Annual report of activities; evaluation of information by Executive Director; verification that nonprofit corporation furthers public interest; confidentiality; posting reports on Internet website of Office. ([NRS 231.0545](#), [231.152](#))

1. On or before October 31 of each year, each nonprofit corporation formed by the Executive Director pursuant to [NRS 231.0545](#) must submit to the Office a report of the activities of the nonprofit corporation during its immediately preceding fiscal year. The report must include:

(a) A summary of the policies and procedures of the nonprofit corporation for keeping confidential any record or other document of a client that is in the possession of the nonprofit corporation and required to be kept confidential pursuant to subsection 10 of [NRS 231.0545](#);

(b) A summary of the policies and procedures of the nonprofit corporation for the performance of due diligence before making a loan guarantee or an investment or loan of money to a business;

(c) A summary of an annual audit of the financial records of the nonprofit corporation;

(d) A summary of the policies and procedures of the nonprofit corporation for the avoidance of conflicts of interest;

(e) Evidence satisfactory to the Office that each member of the board of directors of the nonprofit corporation, each member of any advisory committee to the board of directors, each member of the staff of the nonprofit corporation and any consultants of the nonprofit corporation do not have a personal financial interest in any:

(1) External asset manager or venture capital or private equity investment firm contracting with the nonprofit corporation; or

(2) Business to which the nonprofit corporation makes a loan guarantee or an investment or loan of money; and

(f) A review of the progress reports provided by any business to which the nonprofit corporation makes a loan guarantee or an investment or loan of money.

2. The Executive Director shall evaluate the information in the report submitted by the nonprofit corporation pursuant to subsection 1 and may create an assessment of the overall performance of the nonprofit corporation. The assessment may include, without limitation:

(a) An evaluation of the return on investment from any loan guarantee or investment or loan of money made by the nonprofit corporation;

(b) The number of jobs created or retained as a result of loan guarantees or investments or loans of money made by the nonprofit corporation;

(c) A projection of the increase in tax revenue as a result of the creation, retention or expansion of businesses because of loan guarantees or investments or loans of money made by the nonprofit corporation;

(d) The number of businesses created, retained or expanded because of loan guarantees or investments or loans of money made by the nonprofit corporation; and

(e) Any other information relevant to the economic development of this State as determined by the Executive Director.

3. Based on his or her evaluation of the information in the report submitted by the nonprofit corporation pursuant to subsection 1, the Executive Director must, on or before December 1 of each year, verify whether the nonprofit corporation formed pursuant to [NRS 231.0545](#) furthers the public interest in economic development.

4. Information in a report submitted pursuant to subsection 1 may be deemed confidential pursuant to [NRS 231.069](#).

5. Except as otherwise provided in subsection 4, the Office will post on its Internet website any report or assessment received or created pursuant to this section.

(Added to NAC by Office of Economic Dev. by R113-16, eff. 6-26-2018)

Appendix C

Audit Methodology

To gain an understanding of the Governor's Office of Economic Development (GOED), we interviewed staff, reviewed state laws, regulations, and policies and procedures significant to GOED's operations. We also reviewed budget and financial information, prior audit reports, legislative committee minutes, and other information describing GOED's activities. Furthermore, we assessed and documented GOED's controls related to the awarding of Pandemic Emergency Technical Support (PETS), Commercial Rental Assistance Grants (CRAG) funds, and monitoring of the State Small Business Credit Initiative (SSBCI) program.

Our audit included a review of GOED's internal controls significant to our audit objective. Internal control is a process effected by an entity's oversight body, management, and other personnel that provide reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objective of the entity. The scope of our work on controls related to the equitable distribution, fiscal management, monitoring, reporting, and oversight of Coronavirus Relief Fund (CRF) awards and SSBCI investments include the following:

- Exercise oversight responsibility; establish structure, responsibility, and authority; evaluate performance and enforce accountability (Control Environment);
- Define objectives and risk tolerances; identify, analyze, and respond to risks; assess fraud risk (Risk Assessment);
- Design control activities (Control Activities);

- Use quality information; communicate internally, communicate externally (Information and Communication); and
- Perform monitoring activities (Monitoring).

Deficiencies and related recommendations to strengthen GOED's internal control systems are discussed in the body of this report. The design, implementation, and ongoing compliance with internal controls is the responsibility of agency management.

To evaluate whether GOED provided sufficient oversight for awarding Coronavirus Relief Funds, we obtained lists of awardees for both the PETS and CRAG programs and verified their accuracy and completeness by reconciling to the state accounting system and contractor invoices. From a population of 9,389 PETS awards we randomly selected 50 awardees, and from a population of 777 CRAG awards we randomly selected 15 awardees. We evaluated supporting documents submitted by the awardees to ensure they complied with program requirements.

Next, we obtained lists of outstanding debtors maintained by the Department of Taxation and the State Controller's Office. We verified the accuracy and completeness of the Department of Taxation's list by judgmentally selecting five businesses, based on amount owed, and reviewed the Department of Taxation's supporting documentation. We verified the State Controller's Office list by tracing payments into the state accounting system. We compared Department of Taxation and State Controller's Office Debt Lists to the lists of 9,389 PETS and 777 CRAG awardees, to identify businesses common to both lists, and analyzed the results. We also obtained a list of all business licenses issued after March 1, 2020, from the Secretary of State's Office and compared the list to the lists of 9,389 PETS and 777 CRAG awardees. For all businesses appearing on the lists of awardees and the Secretary of State's list, we reviewed supporting documentation submitted with the application for evidence the business was operating before March 1, 2020.

To evaluate whether sufficient oversight was provided to ensure the equitable distribution of funds, we obtained a list of all applicants for PETS and attempted to obtain a list for CRAG. We verified the accuracy and completeness of the PETS list by comparing the total applicants on the list to the total reported to the Legislature. We analyzed the list of 13,548 PETS applications and identified all unprocessed applications. We were unable to obtain a reliable application list for CRAG.

We also evaluated whether GOED provided sufficient contractor oversight to ensure funds were distributed appropriately by obtaining and reviewing the PETS and CRAG contracts. We collected and reviewed wire transfer documentation for our sample of 50 PETS awardees and 15 CRAG awardees and ensured the names matched what was on the application. Additionally, we determined the time from the application date to the wire transfer date for our samples and evaluated whether the processing time was within the contract requirements.

To determine if sufficient post-award monitoring was performed and federal reports were properly submitted, we reviewed federal monitoring and reporting requirements. We then discussed post-award monitoring activities with staff from GOED and the State Treasurer's Office and confirmed our understanding in writing with GOED. We also obtained and reviewed reports submitted by the Office of Finance, Office of the Governor to the federal government and compared amounts reported to amounts recorded in the state accounting system.

To evaluate whether GOED established proper fiscal practices over the SSBCI program, we requested and reviewed available copies of NBBGEI's audited financial statements. Further, we requested and reviewed bank reconciliations for all NBBGEI's open bank accounts. We also walked through GOED's internal controls for safeguarding checks and deposit slips and reviewed sequence of checks. Additionally, we selected a random sample of 6 disbursements and a judgmental sample of 2 disbursements from a total population of 35 disbursements. Judgment was used to obtain at least one wire transfer or one disbursement from each signing employee. We reviewed each disbursement for proper

supporting documentation, management approval, signing authority, and segregation of duties.

To evaluate GOED's monitoring of the SSBCI program's investment and collateral support activities we reviewed applicable state statutes and regulations and NBBGEI's policies and procedures. We confirmed in writing GOED was not collecting annual reports from NBBGEI. We also requested copies of quarterly progress reports obtained from NBBGEI's investees and reviewed investment agreements between NBBGEI and the investees. Further, we obtained and reviewed copies of monthly reports submitted by the investment manager to GOED. Finally, we reviewed meeting minutes of the Investment Advisory Committee and the Board of Directors of NBBGEI.

To review GOED's process for reporting to the Legislature and public, we reviewed applicable state statutes, regulations, NBBGEI's policies and procedures, and Generally Accepted Accounting Principles (GAAP) standards. We obtained and reviewed annual reports submitted to the Legislature by GOED and reports posted on NBBGEI's website. We also reviewed available audited financial statements and discussed the results of the audit with the independent auditors.

To evaluate whether SSBCI program restructuring complies with legislative intent for program oversight we reviewed legislative minutes regarding the formation of NBBGEI. We obtained and reviewed contracts between GOED and NBBGEI, GOED and the University of Nevada, Reno (UNR), and between UNR and the Investment Manager. Finally, we held discussions with program management regarding the restructuring.

We used nonstatistical audit sampling for our audit work, which was the most appropriate and cost-effective method for concluding on our audit objective. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provided sufficient, appropriate audit evidence to support the conclusions in our report. We did not

project exceptions to the populations tested because our samples included both randomly and judgmentally selected items.

Our audit work was conducted from February 2021 to June 2023. We paused our audit work for this audit in 2021 to complete other legislative priority audits. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Governor's Office of Economic Development. On August 15, 2024, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix D, which begins on page 34.

Contributors to this report included:

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Appendix D

Response From the Governor's Office of Economic Development



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August 23, 2024

Daniel L. Crossman, Legislative Auditor
Legislative Counsel Bureau – Audit Division
401 S. Carson Street
Carson City, Nevada 89701

Re: Governor's Office of Economic Development Performance Audit of Pandemic Relief and State Small
Business Credit Initiative Assistance Programs 2023

Dear Mr. Crossman,

Thank you for the information provided in the Legislative Counsel Bureau preliminary Audit Report of the Governor's Office of Economic Development. We appreciate the Legislative Counsel Bureau's professionalism and the feedback that has been provided throughout the course of the review and the opportunity to discuss LCB's recommendations.

GOED agrees and accepts the Audit Recommendations and respectfully submits our responses along with the audit recommendations checklist.

If you have any additional questions or require further clarification, please do not hesitate to contact me or my staff.

Sincerely,

A handwritten signature in black ink that reads "Thomas J. Burns". The signature is fluid and cursive.

Thomas J. Burns
Executive Director



Responses to Audit Recommendations

1. Ensure established criteria is strictly followed when awarding funds.

Response: GOED accepts this recommendation.

We recognize the importance of adhering to established criteria when awarding funds to ensure fairness, transparency, and accountability. Moving forward, we will reinforce our internal processes and conduct additional training to guarantee strict compliance with these criteria. This will help us maintain the integrity of our funding decisions and avoid any future discrepancies.

2. Establish policies and procedures for monitoring contractors to ensure compliance with contract requirements, laws, and regulations.

Response: GOED accepts this recommendation.

We are currently in the process of developing comprehensive policies and procedures to enhance our contractor oversight. These will include regular compliance reviews, performance evaluations, and a clear escalation process for addressing any non-compliance issues. We are committed to ensuring that all contractors meet the necessary standards and comply fully with all applicable laws and regulations.

3. Enhance accountability in future programs by performing post-award monitoring of awardees.

Response: GOED accepts this recommendation.

GOED is implementing a structured post-award monitoring process to ensure that awardees meet all program requirements and objectives. This process will include regular progress reviews, financial audits, and compliance checks to ensure accountability and effective use of program resources.

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2



4. Ensure the Nevada Battle Born Growth Escalator, Inc. (NBBGEI) receives required annual independent financial statement audits.

Response: GOED accepts this recommendation.

This recommendation has been addressed and an amendment was added to NBBGEI's Scope of Work (Amendment #1 to Contract, effective 3/29/2024) ensuring an independent audit of its financials is completed annually.

5. Implement controls to properly safeguard the State Small Business Credit Initiative checkbook and ensure these controls are strictly followed.

Response: GOED accepts this recommendation.

This recommendation has been addressed. The bank account affiliated with the checkbook has been closed and checks are no longer used for the program. Banking transactions now occur electronically with controls in place to ensure proper segregation of duties.

6. Ensure signing authority for NBBGEI bank accounts are properly tracked.

Response: GOED accepts this recommendation.

This issue has been addressed and all NBBGEI bank accounts and signing authority are tracked by the GOED Program Compliance Officer and NBBGEI Fiscal staff.

7. Ensure proper segregation of duties over disbursements, recordkeeping, and reconciling of NBBGEI fiscal transactions.

Response: GOED accepts this recommendation.

This recommendation has been addressed with updated processes and fiscal duties disbursed amongst additional GOED and NBBGEI staff, ensuring the controls instituted allow proper segregation of duties.

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8. Ensure authorization for NBBGEI's disbursement transactions are documented.

Response: GOED accepts this recommendation.

This recommendation has been addressed with the addition of GOED and NBBGEI Compliance staff implementing comprehensive checklists, processes, and controls to eliminate incomplete or missing records.

9. Collect annual performance reports from NBBGEI and ensure the reports contain all required information.

Response: GOED accepts this recommendation.

This recommendation has been addressed with the revision of NBBGEI's Scope of Work (Amendment #1 to Contract, effective 3/29/2024), designating the mandatory reporting criteria in NRS 231.0545 and NAC 231.140.

10. Ensure progress reports are collected from all businesses NBBGEI invest in or guarantees loans on behalf of during the period the investment or loan is active.

Response: GOED accepts this recommendation.

As part of the required SSBCI reporting process to the US Treasury, this recommendation has been addressed and a process has been developed and incorporated to ensure all progress data is being obtained and reporting requirements have been met.

11. Develop consistent reporting requirements for investee businesses and ensure the requirements are included in all investment agreements.

Response: GOED accepts this recommendation.

The SSBCI Program has further developed, and reporting updates are conducted on a semi-annual basis from investee businesses, which exceeds the required annual reporting standard set by US Treasury.

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12. Perform and document annual assessments certifying NBBGEI is furthering the public interest and publish the required information on the internet.

Response: GOED accepts this recommendation.

This recommendation has been addressed and was incorporated in the NBBGEI Annual Report submitted on December 1, 2023. Subsequent reports will further contain economic impact analysis related to NBBGEI activities. Furthermore, each investment or credit transaction conducted now contains a section of how the respective investment or loan furthers the public interest.

13. Develop policies and procedures to ensure reports submitted to the Legislature and posted on the internet contain all required information.

Response: GOED accepts this recommendation.

This recommendation has been addressed with the development of policies and procedures and updates to the NBBGEI Scope of Work (Amendment #1 to Contract, effective 3/29/2024).

14. Ensure contracts between GOED and NBBGEI and its subcontractors contain provisions for legislative oversight and inspection of records.

Response: GOED accepts this recommendation.

This recommendation has been addressed and specific language to its effect is included in the NBBGEI contract (CETS #26797-section 9B, effective 10/11/2022) and specified in the NBBGEI Scope of Work (Amendment #1 to Contract, effective 3/29/2024).

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Governor's Office of Economic Development's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Ensure established criteria is strictly followed when awarding funds	<u>X</u>	<u> </u>
2. Establish policies and procedures for monitoring contractors to ensure compliance with contract requirements, laws, and regulations.....	<u>X</u>	<u> </u>
3. Enhance accountability in future programs by performing post-award monitoring of awardees.....	<u>X</u>	<u> </u>
4. Ensure the Nevada Battle Born Growth Escalator, Inc. (NBBGEI) receives required annual independent financial statement audits.....	<u>X</u>	<u> </u>
5. Implement controls to properly safeguard the State Small Business Credit Initiative checkbook and ensure these controls are strictly followed	<u>X</u>	<u> </u>
6. Ensure signing authority for NBBGEI bank accounts are properly tracked.....	<u>X</u>	<u> </u>
7. Ensure proper segregation of duties over disbursements, recordkeeping, and reconciling of NBBGEI fiscal transactions.....	<u>X</u>	<u> </u>
8. Ensure authorization for NBBGEI's disbursement transactions are documented	<u>X</u>	<u> </u>
9. Collect annual performance reports from NBBGEI and ensure the reports contain all required information.....	<u>X</u>	<u> </u>
10. Ensure progress reports are collected from all businesses NBBGEI invests in or guarantees loans on behalf of during the period the investment or loan is active.....	<u>X</u>	<u> </u>
11. Develop consistent reporting requirements for investee businesses and ensure the requirements are included in all investment agreements	<u>X</u>	<u> </u>
12. Perform and document annual assessments certifying NBBGEI is furthering the public interest and publish the required information on the internet.....	<u>X</u>	<u> </u>
13. Develop policies and procedures to ensure reports submitted to the Legislature and posted on the internet contain all required information	<u>X</u>	<u> </u>

Governor’s Office of Economic Development’s Response to Audit
Recommendations (continued)

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
14. Ensure contracts between the GOED and NBBGEI and between NBBGEI and its subcontractors contain provisions for legislative oversight and inspection of records.....	<u> X </u>	<u> </u>
TOTALS	<u> 14 </u>	<u> </u>