

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)