Joe Lombardo
Governor
Chairman

Craig Stevenson
Administrator
Division of Internal Audits
Governor's Finance Office

STATE OF NEVADA
EXECUTIVE BRANCH AUDIT COMMITTEE

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PUBLIC MEETING NOTICE AND AGENDA

Date and Time:	November 2, 2023, 1:00 PM
Location:	Old Assembly Chambers of the Capitol Building 101 N. Carson Street Carson City, Nevada 89701
Video Conference Location:	Grant Sawyer State Office Building 555 E. Washington Avenue, Ste. 5100 Las Vegas, Nevada 89101

MEETING MINUTES

1. Call Meeting to Order/ Roll Call/ Remarks

Roll call established a quorum was present:
- Chair, Governor Lombardo
- Lieutenant Governor Anthony
- Treasurer Conine
- Controller Matthews
- Attorney General Ford
- Public Member Babsky

2. Public Comment

(The first public comment is limited to comments on items on the agenda. No action may be taken upon a matter raised under public comment period unless the matter itself has been specifically included on an agenda as an action item. The Chair of the Executive Branch Audit Committee will impose a time limit of three minutes. Public comment may be provided in person or via telephone. To provide public comment on an item on the agenda via telephone, dial 775-321-6111 or 702-329-3435. When prompted to provide the meeting ID, please enter 486 812 006#. When the Chair opens the public comment period, dial *5 to request to be unmuted. To resolve any issues related to dialing in to provide public comment for this meeting, please call (775) 684-0222.)

No public comment presented for the committee's information or consideration.

3. Approval of the July 19, 2023 Meeting Minutes. (For Action)

Motion: Approve the July 19, 2023 Meeting Minutes
By: Treasurer Conine
2nd: Controller Matthews
Vote: Passed unanimously

4. Presentation of Audit Reports Pursuant to NRS 353A.085. (<u>Information Only</u>)

A. (DIA 24-01) Department of Veterans Services – Northern Nevada Veterans Home; Martin Schaefer, Executive Branch Auditor; Jessica Young, Audit Manager.

Martin Schaefer, Executive Branch Auditor, presented the report to the committee, stating that the audit focused on improving transparency in operations between the Department of Veterans Services (NDVS) and Avalon Health Care Group, the management company of the Northern Nevada State Veterans Home. He then stated that going into the audit, NDVS had yet to receive a distribution of cash from Avalon's corporate parent as envisioned in the contract for management services. The first eligible 6-month cycle for a distribution ended in June 2020. Mr. Schaefer noted the first distribution was received by NDVS in August 2023 for over $967,000 and that the distribution calculation reflected corrections to certain issues that were noted as part of the audit. Mr. Schaefer continued, stating that the audit found that several aspects throughout the current state of operations called for revision. The Division of Internal Audits (DIA) made five recommendations.

First, DIA recommended NDVS take the steps necessary to ensure they are able to independently validate the financial data resulting from North Home operations. The information made available to NDVS throughout the life of the contract has been limited to summary reports prepared by the management company. NDVS has not been given access to the supporting documents necessary to corroborate and reconcile the information presented by the management company. Reliance on the summary information prepared by the management company has led to various financial misunderstandings between the parties. Most notably, NDVS has been unable to validate the lack of funds available for distribution through the end of 2022.

Mr. Schaefer stated that, based on the cash balance and reserve requirement presented by the management company, there was never a balance of cash available for distribution to the state. The audit noted financial discrepancies in several areas, including multiple instances in which the management company directed NDVS to remit more funds to the North Home bank account than what was owed. The bank account is under the full control of the management company, which has allowed the corporate parent to deposit and withdraw funds without the knowledge or approval of NDVS representatives.

Mr. Schaefer continued, stating that, in addition to funds for the fee owed to them by the state, the corporate parent withdrew over $4 million through the end of March 2023 for what the corporate parent claimed to be expense reimbursements. According to its representative, the corporate parent charges a portion of certain corporate-level expenses to each skilled nursing facility under its management. The audit was unable to determine that sufficient records are generated to support these reimbursements. Upon obtaining and reviewing the bank statements that were originally withheld from NDVS, DIA was unable to find a correlation between bank transfers and known or represented amounts due to the corporate parent. The restrictions on data made available to NDVS are noncompliant with the contract, which states NDVS is to have unlimited access to financial information.

DIA's second recommendation was to link the management fee to services performed. Mr. Schaefer stated that there is limited information available to evaluate the cost to the state of paying the corporate parent the management fee. The contract is structured so that the state owes the corporate parent 5% of gross revenue generated by the North Home each month. The understanding is that the management services covered by the fee are performed by corporate or regional personnel that allocate time among multiple facilities. Mr. Schaefer stated that the corporate parent claims they do not track the time or effort spent on a particular facility. As such, there is no documented data of actual services provided to the North Home. Basing the fee solely on North Home revenue has provided no clear correlation between services received and the fee owed.

Mr. Schaefer explained that the North Home generates revenue from charges to its residents, which include the cost of the room and various medical expenses. The corporate parent is automatically owed 5% of those charges. There is no indication that the need for management oversight services increases in conjunction to the charges incurred by residents. This effectively means the corporate parent earns higher fees without a corresponding need to provide additional service. DIA felt it was important to emphasize that the 5% fee owed to the corporate parent does not take all other North Home expenses into account. After accounting for total expenses, the state paid the corporate parent approximately 96% of North Home net income through the end of 2022.

Mr. Schaefer stated that DIA's third and fourth recommendations are to revise the calculation of the reserve requirement by implementing one of two options. The first option, recommendation three, is to revise the reserve to reflect the true cash needed for operations. The second option, recommendation four, is to use one-month per diem as the reserve requirement. Mr. Schaefer explained that the contract allows the management company to retain funds equal to 35 days of cash needed for operations with any excess funds reverting to the state. Each June and December, the management company has presented NDVS with a summary of cash available against the reserve requirement, all of which have shown there is no cash available for distribution to the state. The management company has been inflating the reserve by misrepresenting non-cash income statement adjustments as cash used in operations. The inclusion of these adjustments increases the funds retained in the reserve, which then decreases funds available for distribution to the state.

Mr. Schaefer then referred to the second option, which is to use one-month per diem as the reserve requirement. He noted that the state initially intended for the reserve to equal one-month per diem, but the corporate parent requested the reserve equal 35 days of cash for operating expenses instead. Mr. Schaefer stated that the corporate parent argued that costs would be too high in the first one-to-two years of operations and that the short-term nature of the contract left the corporate parent at higher risk. He proceeded to explain that operations have now surpassed five years and the original contract was amended from two years to six years, making the corporate parent's rationale for the change outdated and no longer applicable. Using one month per diem as the reserve would provide a more precise calculation and limit the ambiguity involved in basing the reserve on expenses.

DIA's fifth recommendation is to present the North Home financial statements on the state's fiscal year basis. Mr. Schaefer noted that the management company currently presents the financial statements on a calendar year basis. This conflicts with the transactions reflected in the state's accounting system, which are recorded in accordance with the state's July 1st to June 30th fiscal year. Mr. Schaefer explained that the conflicting recording periods complicate the ability to reconcile and assess year-end data recorded on either of the two sources. In order to determine whether discrepancies exist, one source must be manually converted to align with the other source, which can be a cumbersome process and can lead to inaccurate reconciliations. Mr. Schaefer noted that the determination to present the financial statements for a calendar year was a unilateral decision on the part of the corporate parent in drafting their Limited Liability Company operating agreement with the management company and that the state was not a party to that operating agreement.

DIA's sixth recommendation is to take the steps necessary to improve oversight of the management contract. Mr. Schaefer noted that an inspection of the North Home by the Centers for Medicare & Medicaid Services in April 2022 found 37 health citations, resulting in a 1-Star Health inspection rating. Thirty-seven citations was substantially higher than both the Nevada average of 13.5 and the United States average of 8.7. The health inspection resulted in an overall 2-Star rating for the North Home.

Mr. Schaefer continued, stating that the contract for management services made clear that the objective of the state was to attain and maintain a 5-Star rating, and that the corporate parent represented that they were qualified to meet this objective. A follow-up Medicaid inspection performed in July 2022 found that the deficiencies had been corrected; however, an inspection performed by the Department of Veterans Affairs approximately six months later found that the North Home was out of compliance with the federal requirements for state veterans' homes. There were eight findings resulting from this inspection, indicating that corrective actions taken by the management company were not implemented for long-term solutions. Mr. Schaefer concluded his presentation by stating that the results show that there is substantial work to be done by both the management company and NDVS to meet the expectations of a 5-Star facility for veterans' care.

Dina Babsky, Public Member, asked if the 5-Star goal was aspirational or if it is a hard performance measure that is required. Warren Lowman, Administrator, answered that it is a notation in the contract, to attain and maintain a 5-Star rating as the goal.

Governor Lombardo asked if there are any financial payments or contract obligations as a result of the 5-Star rating versus the 1-Star rating. Administrator Lowman replied that DIA did not see any consequences and asked NDVS Director Fred Wagar if he could add any details. Director Wagar stated there are no financial obligations based on the star rating.

Treasurer Conine asked if the North Home ever achieved a 5-Star rating. Director Wagar responded not at this time. Director Wagar noted there were three areas to the rating, one area was rated 5-Star, one was rated 4-Star, and one was rated 1-Star. Director Wagar noted CMS rules say if you get 1-Star in any area, the highest rating you can get for that period is 2-Stars, and that's why it's a 2-Star rating and not an average of the three areas.

Controller Matthews asked if any 1-Star rating automatically triggers a 2-Star rating. Director Wagar stated that was correct.

Treasurer Conine asked when the contract expires. Joe Theile, NDVS CFO, stated his belief that it was August 2024, adding that it was either August or October.

Treasurer Conine asked what the termination provisions are under the contract, what gives the State the right to terminate, and under what conditions. Mr. Theile stated it's the standard contract language used by the state and he believed it is at least 90 days.

Governor Lombardo stated that representatives from Avalon, the corporate parent, were in the room and asked if either one could answer that question. Alan Hash, Avalon President, stated he did not know the provision for canceling the contract with the state. Director Wagar stated he could get that answer back to the Governor.

Treasurer Conine stated he thinks termination provisions would be the most reasonable question to expect after an audit of this magnitude. He noted that he has been on the committee for five years and has never seen anything like this, and stated he was trying to understand the decision not to provide the information NDVS has asked for that is required by the contract, and asked whose decision it was and why it was made. Mr. Hash stated he was not aware that NDVS did not have everything they needed and that he certainly was more than happy to cooperate and provide any information they had not provided.

Carl Hugie, Avalon Regional Vice-President, stated that, since taking over his role, there have been multiple things identified that were not shared with NDVS and he has worked with Mr. Thiele and individuals in NDVS to do everything to share those items. Mr. Hugie recognized there are things that have not been as open as they would like them to be and they are doing everything they can to correct those things. He noted that Avalon recognizes that this contract has been going on for five years and they recognize that this is all coming late in the game. He stated that Avalon has systems that are complex, difficult, and run separately, and they are different from what Mr. Thiele runs in his department. Mr. Hugie then stated that Avalon has no interest in not sharing information and will do all he can going forward and if contract termination is what is decided, they will do everything possible to transition appropriately, adding that the veterans deserve as much.

Treasurer Conine pointed out that there are surely plenty of people at the state who can help go through the spreadsheet. He expressed his appreciation for Avalon's willingness to share the information, then asked whether the almost-million-dollar payment that randomly showed up only occurred because DIA started asking questions, whether Avalon went back and determined if additional payments should have occurred in other quarters, whether those potential payments were lumped in with the referenced payment, or whether the referenced payment was only for the quarter in question.

Mr. Hugie stated the calculation was a standard in-time calculation that would have happened with or without the audit. He explained that adjustments were made to the calculation based on audit findings, which helped clarify some of the questions regarding what was or was not a cash-based expense. The 35-day cash on hand calculation was adjusted, but $900,000 would have come forward with or without the audit. The calculation adjusted the distribution by $40,000 or $50,000 dollars. He continued to explain that Avalon had already adjusted the distribution calculation based on the audit recommendations and that they are already preparing to make adjustments to the next calculation due in December, with payment being issued the first part of next year. Mr. Hugie noted Avalon is working to change the calculation based on these recommendations to improve and make the appropriate changes for improvement to the contract. He stated that if Avalon went back and made the adjustments to the calculations in prior months, it would not change the amount NDVS received, pointing to the fact that the money is sitting in a cash account belonging to NDVS. He continued, stating that if the calculation had been made going back six months to a year ago, NDVS would receive the same amount. Mr. Hash added that it's still all the state's money, the money is separate from Avalon, and it is not Avalon's money.

Treasurer Conine turned to the corporate parent's process of allocating expenses to different locations. He asked whether the cost per location is just the total of corporate allocations divided by the number of locations. Mr. Hugie answered, stating that it depends on the allocation. He explained that there are multiple types of allocations, which can be divided up based on the patient level, employee level, patient days, or utilization of the facility. Multiple expenses are divided up by multiple different expense levels, resulting in a calculation being held in different management systems. Some allocations are insurances for the employees. Some are insurances for the facility itself. Mr. Hugie then pointed to property insurance as an example, explaining that insuring multiple sites when purchasing property insurance generally results in a discount and that only insuring one site will cost more. Because Avalon insures multiple sites, they get a cost breakdown for multiple sites. He continued to explain that the insurer will assign a percentage of the total cost for each site, which is then available definitively.

Treasurer Conine asked if either the agency or Internal Audit felt that they have the transparency to know that the property tax piece allocated to NDVS is based on the property tax bill received at the parent level. Administrator Lowman stated that DIA did not. DIA requested the backup for all allocations and did not receive it; DIA cannot guarantee that the claim is in fact what it was.

Treasurer Conine stated NDVS will need to see the backup and that he will not be comfortable that the allocations were correct until then. He stated that, given the history of what we're looking at and understanding we are late in the game, we are not in a place of trust yet.

Governor Lombardo stated that there is still a question regarding the termination of the contract. He then asked whether August 13, 2024, as reflected in the recommendations, was accurate. Director Wagar asked if the Governor was referring to the six recommendations. Governor Lombardo pointed out that the recommendations indicate the contract is set to end on August 13, 2024. Mr. Theile answered, stating that date is correct.

Controller Matthews turned his attention to Mr. Hugie, stating that, in response to one of the Treasurer's questions, Mr. Hugie acknowledged a lack of transparency, and that information was not being shared. Controller Matthews asked that Mr. Hugie elaborate further, including to what extent the problem points could be identified and what specific steps could be taken to remedy the issue, which would provide the committee confidence and assurance that the problem has been accurately identified and will be addressed going forward.

Mr. Hugie proceeded to explain that what had been identified over the course of months, with the help of the auditors as well as NDVS, is that the financial documents provided to NDVS over the course of the contract have been summary documents and those summary documents were basically numbers on a PDF form with no basis to them. Mr. Thiele and the financial team did not have the ability to look into what those numbers represent. Mr. Hugie acknowledged that NDVS did not have the access to drill into those numbers and noted that Avalon was working to give NDVS access to multiple records. He explained that some of those records are healthcare records, some are procurement records and invoice tracking systems that are used to pay the invoices and bank statements that NDVS did not have access to. Mr. Hugie further stated that NDVS does not have access to the computers showing the transactions handled and managed. Avalon is trying to get NDVS access to the system so that NDVS can better research and understand all the information in the reports. He continued, stating that NDVS was just getting summary sheets and did not have all the access and all the details, which was never shared or identified. Mr. Hugie stated that Avalon is not in the practice of sharing that information with other entities, so there are barriers to break down in order and fix that.

Controller Matthews turned to the fact that requests for information were not met, pointing out that is a separate type of problem. Controller Matthews wondered if Avalon has been able to identify this specific issue. Mr. Hugie explained that he is in operations and works with the operational side of the facility. He deals with the day-to-day operations, managing staff, managing labor hours, managing revenue, and other operational issues. The financial side is a secondary component of operations. Mr. Hugie further explained that he does not collect the cash nor spend the money. He gets a sheet every month showing anticipated revenue, anticipated expenses, and the anticipated net, similar to what Mr. Theile receives. He stated that he does not see the payments on the other side and that he receives only summaries. The financial side, which is Mr. Theile's concern, is a separate part of the company. The financial side, which manages all the cash revenues, the cash incomes, collections, and the expenses, was the side not sharing information.

Mr. Hugie continued, stating that when requests for information came to him, he shared the breakdowns of the operation. He was not sharing the cash flows and suggested part of the problem was that the operational side was only sharing operation pieces. He was not sharing the cash pieces applicable to the 35-day holdback. The two sides are not the same, which is an industry separation differing from most business and governmental operations. Mr. Hugie stated that he and Mr. Thiele were not talking the same language. He had to get Mr. Thiele in with his financial side, but his financial side and Mr. Thiele did not speak the same language either. Mr. Hugie finished by indicating these barriers were getting in the way, which took some time to work through.

Treasurer Conine asked Mr. Hugie to clarify whether there are two sides to one company that were not talking to each other over a period of four and a half years. Mr. Hugie replied that he is in operations and works with the day-to-day operations in and out of the facility. He explained that a patient will be admitted with an anticipated payment source and anticipated expenses, but the payment source is not collected on day one. Mr. Hugie stated they don't receive the payment for that patient the day they get them, and every subsequent day. They must get a bill for that patient and sometimes they don't get paid for 30 or 60 days afterwards. He pointed out that staff must be paid to take care of that patient, emphasizing that cash flows are not received at the same time operational expenses are incurred. This meant that information being shared from the operations side was not the same as that on the cash flow side. Mr. Hugie acknowledged that this was his misunderstanding and the reason there were some difficulties when he first started. The information shown to Mr. Thiele was not as immediate and as time sensitive as what Mr. Thiele needed on the cash flow side. Mr. Hugie stated that was his mistake, not the institution's.

Treasurer Conine expressed his appreciation for the explanation and wondered whether this is the same process that Avalon goes through in other states in which they operate facilities, pointing to the issues with the operation side, the delay in payment, and the cash counting versus providing services. Treasurer Conine then asked NDVS if they've received the information and the transparency needed to move past these problems. Mr. Thiele stated that it has not been received, then emphasized that it could take up to six months in some cases to achieve full transparency, as NDVS indicated in their response to the recommendations. He stated that NDVS should receive all the backup documents to support the October operating statement later in the current month and that they are making progress, but they are not there yet.

Mr. Hash requested the chance to clarify, stating that he thinks there has been some miscommunication and that the issue is no longer lack of transparency; it is that these issues such as the 5% management fee and changing the structure are going to take six months. They are longer-term issues.

Mr. Thiele interjected to note the system Avalon is putting in place. Mr. Hash stated that NDVS is now receiving bank statements and that Avalon has provided financial documents and the details of invoices. Mr. Hash stated that he believes there is an outstanding accrual question, then asked if NDVS is getting financial data, directing the question to Mr. Theile. Mr. Thiele stated NDVS was getting the data but not the complete package. He then explained that NVDS does not have a huge staff and that having to dig through data raises questions and causes NDVS huge delays, including delays in paying Avalon. He continued by stating it is matter of refining the system, which is supposed to start the with next operating statement and the corresponding back-up.

Mr. Hash stated he thinks they have plans for November forward to have transparency on any of the financial data and that he will make sure that NDVS gets the financial data, while then apologizing for the misunderstanding. He stressed that Avalon is embarrassed by this report, it's something that they are taking seriously, it's not how they do business, and NDVS's books will be open. Mr. Hash then stated he wanted to put some color on the timing of the distribution and proceeded to explain that starting up a new veteran's home will result in losses of $2 to $3 million before the building starts achieving profitability and the cash flows that go with it. He emphasized that there were significant challenges in this facility; in particular, cost reports were held up, some of them well in excess of the year, which meant cash wasn't available to distribute.

Mr. Hash continued, explaining that the financials look good but available cash was tied up in the cost reports. He pointed out that Avalon had to loan the state interest-free money during that time so that Avalon could meet payroll, keep the building open, keep the veterans fed, and keep the staff coming. By the time Avalon got to making money and the cash started catching up with the operations, COVID hit, which did not help the financial operations of skilled nursing facilities. Mr. Hash stated he was happy to say we are past COVID, and that the cash is now caught up to the operations and those distributions can now take place.

Mr. Hash continued, expressing his agreement with Mr. Hugie that there would have been a distribution to the flavor of $900,000, but acknowledged the $40,000 error due to a $10 hold back that they were not paying for non-veterans. He stated the error was a complete oversight that was caught by the committee and that Avalon paid it within 30 days of finding out that it was an issue. It was not something done intentionally. Mr. Hash then stated they are certainly open to anybody looking at the books and that they will be working as a team to make sure that everybody is communicating and there are no more misunderstandings.

Director Wagar stated he wanted to go back and reflect on the opening of the home. He pointed out that the home opened in 2019, everyone knows what occurred in 2020, and a new administrator was named in the meantime, who's been doing a terrific job. He then stated that he came in as a new Director for Veteran Services and that Mr. Thiele is the new Executive Officer. Director Wagar feels that NDVS is heading in the right direction but that the upcoming report for October would indicate if there's full transparency, which would be huge. Director Wagar thanked the Division of Internal Audits for doing the audit as requested, which he feels was needed. He continued, stating that the audit should have been done a while back, but stressed that he was just glad it's been done. NDVS got six good recommendations and one of them has been accomplished. Director Wagar finished by expressing his belief that the committee is going to see some good improvement the next time they see NDVS.

Controller Matthews recalled that NDVS mentioned that they don't feel like they are where they need to be in terms of getting information, and asked NDVS whether there was some degree or level of confidence that things are on the right track. Mr. Theile stated that things were moving forward and they are excited for the upcoming report and the ability to review the back-up, which should provide a level of comfort. Mr. Thiele stated that it has helped tremendously for everybody to see where there was a miscommunication. He stated that NDVS has gone through a lot of changes in personnel and the same is true for Avalon. He stated the problem is fixable.

Ms. Babsky stated she wants to go back to the scorecard after having discussed the financials extensively. She pointed out that the number of citations for the home was 37; the average for U.S. is 8.7; and for Nevada it is 13.5, then asked what is being done about that. Mr. Hugie stated that the state came back in April of 2023 and cited 8. He proceed to explain that an administrator and D.O.N. (Director of Nursing) had just been terminated in April 2022. NDVS now has a new D.O.N. and has implemented a lot of new clinical systems. He continued, explaining that the survey that is cited in the report is a state survey. The survey that their work cites is a VA survey, and the North Home was put back into compliance. The VA came in October and found some other areas out of compliance, which Mr. Hugie characterized as very common in healthcare practice due to things like survey preferences.

Ms. Babsky asked Mr. Hugie to clarify that the recent survey shows 8, not 37. Mr. Hugie confirmed it was 8, not 37. Mr. Hugie stated the point value was cut from 268 down to 15, which is a large decrease. He continued, explaining that a lot of pieces have been put into place to get that corrected; it was a horrendous survey; a D.O.N. was terminated; and a number of clinical staff members turned over. A lot of things have been changed, including an increase in corporate support and oversight. Because of the poor survey, the North Home is rated 1-Star. He explained that three areas affect the rating: survey, staffing, and quality. The North Home received 5-Star ratings for staffing and quality, but the survey has kept the rating down. Mr. Hash added that it takes three years to overcome a 1-Star rating so they will have to live with it for a while.

Governor Lombardo asked whether there is an effect on federal funding when a home is rated 1- or 2-stars vs 5-stars. Mr. Hugie replied that there was not. Governor Lombardo then asked what affect star rating has. Mr. Hugie indicated public relations and public perception can be affected. Governor Lombardo then asked about living quality and the possibility of closure of the facility. Mr. Hugie explained that there is a risk of becoming a special focus facility if low survey scores continue. He further explained the home could be put in a position to go into special focus, receive ongoing surveys, risk non-payment for new admissions, and risk closure if the facility continues to receive negative surveys.

Governor Lombardo asked whether the contract stipulates that a 5-Star facility will be maintained. Mr. Hugie confirmed the contract states that Avalon will achieve and maintain, elaborating that Avalon will achieve, then continue to work forward. Governor Lombardo asked if it will take five years to get to that. Mr. Hugie stated he didn’t think so. Mr. Hash stated that it would be three years. Mr. Hugie agreed there's a three-year tail on the survey, then clarified it would be three years from April 2024.

Governor Lombardo pointed out that a 5-Star rating is anticipated, yet the contract expires in August of next year. Governor Lombardo then asked if Avalon fully intends to re-apply. Mr. Hugie said yes.

Governor Lombardo turned matters to the audit recommendations. He asked Director Wagar to confirm one of the tasks has been accomplished. Director Wagar stated number three, revise reserve calculation to reflect cash needs, has been fully implemented. Mr. Theile confirmed it was corrected and added that it was done immediately upon being brought to their attention by the audit team.

Governor Lombardo pointed out that NDVS communicated in the audit response that an answer regarding validation of the Veterans Home financial data is anticipated in November of this year and asked whether that was still anticipated. Mr. Hugie answered, stating they're bringing forward the operating statement for recommendation two, and the November CAT statements that include all of the operating statements for October and will include a number of items to give them full transparency and access to the full financial data. Mr. Hugie expects that there will be a lot of information and a lot that they haven't seen. He expects there will be more questions, but they are opening all the books to help make sure that happens.

Governor Lombardo stated he would continue to walk through the recommendations; one of the recommendations was to revise the calculation of the reserve to the formula outlined in the RFP. Mr. Hugie stated that will be accomplished following evaluations due to be completed in December. A calculation of the cash on hand would be performed December 31st, which only happens twice a year. One in June and one in December. Mr. Hugie then stated that when the calculation is done in December, they will look at utilizing the formula in the RFP.

Governor Lombardo stated it says the recommendation of the audit committee requires an amendment of the current contract and asked if that has been done. Mr. Theile stated they will have to amend the contract to change that particular one.

Governor Lombardo stated the next recommendation is to present financial statements on a fiscal year basis and the audit committee says it is anticipated to be implemented in July of 2024. He then pointed out that the contract expires in August of 2024 and asked how that benefits anybody. Mr. Theile stated that presenting the financial statements on a fiscal year basis would take two months, adding that it would be January 2024 and that NDVS is not waiting until August 2024. Governor Lombardo asked if they anticipate being able to do that. Mr. Theile indicated they did.

Governor Lombardo directed his attention to Mr. Hash, asking him to confirm the $40,000 oversight. Mr. Hash confirmed that was correct.

Governor Lombardo stated, last but not least, improve oversight of the management contract. Director Wagar indicated that this recommendation would be the responsibility of NDVS and that staffing changes were one of the steps that would be taken. Director Wagar added that he and Mr. Thiele discussed the issue at length and decided a state officer would be brought in to follow the issue on a monthly basis, and a daily basis as needed.

Governor Lombardo asked whether NDVS would be drafting the next RFP. Mr. Theile confirmed they would and it would be done through State Purchasing. Governor Lombardo stated that he wants an annual audit included in the next RFP. He emphasized that it was unacceptable to see these types of issues at a veteran services home facility, while waiting plus one, plus one to have an audit. Governor Lombardo then instructed NDVS to put a mandate of an annual audit into the RFP.

Mr. Theile asked Governor Lombardo whether it was to be an audit by the state audit team or an independent outside audit. Governor Lombardo stated that it would be up to NDVS, adding that, if it could not be done within their own resources, they could hire outside within budget constraints. Governor Lombardo further added that the forensic nature of the audit would be up to NDVS, as long as these violations cease.

Treasurer Conine asked NDVS what the Star rating is for the Southern Nevada Veterans Home. Director Wagar stated it's a 5-Star. Treasurer Conine requested confirmation that it is a state managed facility as opposed to being managed by an outside entity. Director Wagar stated that was correct. Treasurer Conine pointed out that the decision for the Northern Nevada Home to be managed externally, made in 2018 or so, was done because the state didn't have the bandwidth to start up a new home. He then asked whether that was still the case, given that the state has been pretty successful doing it in Southern Nevada. Director Wagar stated his opinion that the North home is easier to control, being there and under contract. He stated that the annual audit would be extremely helpful to make sure it continues in that direction and that running a state home with state employees can be challenging. Mr. Theile followed up, stating that it was his understanding that it took a decade for the Southern Nevada State Veterans Home to become general fund independent. He continued, stating that there were a huge amount of problems, and when this opportunity came around, even though the former Bureau Chief of Health Care Quality and Compliance for the state was the Deputy Director of NDVS, they did not have the experience necessary to open up and stand up a facility like this. NDVS needed to contract with a company that's done it before.

Treasurer Conine clarified that his question is, now that a facility has been stood up and it is an ongoing concern, whether that was the same calculation. Mr. Theile stated that, although Director Wagar may have an opinion, it was said in many legislative hearings that it's really a legislative decision on how the home is operated. The model is different than the Southern Home in the size and how it functions. He continued, explaining that, while they are both skilled nursing facilities, the size of the one in the North makes it difficult to generate the revenue to breakeven and to have enough money available in a reserve to use for inevitable repairs. Though the North Home is a newer facility, it’s been shown that money is needed for repairs at South Home. Director Wagar stated that not only are employees in the building needed for state-run facility, but more IT people, more HR people, and more finance people would be needed. Mr. Theile added that a bigger space would be needed to accommodate the staff than they have at this time.

Governor Lombardo turned his attention to Administrator Lowman, asking whether it was correct that follow up on audit recommendations wasn’t usually performed until six months out. Administrator Lowman stated that's correct. Governor Lombardo asked if it was possible to get the next quarter update on this particular item in the next committee meeting. Administrator Lowman stated yes. Governor Lombardo then stated he would like an update provided as an information only item in the next committee meeting to update the committee on the NDVS issue with the Northern Nevada Veterans Home. Administrator Lowman indicated that will be done.

5. **Presentation of Audit Six-Month Follow-Up Status Reports Pursuant to NRS 353A.090.** **(Information Only)**

   A. (DIA 23-03) Department of Conservation and Natural Resources, Division of Water Resources – Rate Equity; Ruby Camposano, Executive Branch Auditor; Craig Stevenson, Audit Manager.

Craig Stevenson, audit manager, stated this is the six-month follow-up to their audit of the Department of Conservation and Natural Resources, Division of Water Resources, DIA Report number 23-03. The audit focused on enhancing the equitability of water assessments and cost allocations. The division has made progress implementing the recommendations. Recommendation number two, to develop an equitable basin cost allocation methodology consistent with accounting best practices is fully implemented. The division adopted a quarterly basin cost allocation methodology using direct expenses as the basis for the allocation. The new methodology equitably allocates indirect costs among water basins. Recommendation number one, to reinstate the former water assessment methodology for Municipal water users, is partially implemented. The division is working with the Department of Taxation to update water assessment guidance and is soliciting feedback from counties regarding implementation of the recommended water assessment methodology. The current assessment methodology charges users a flat fee, regardless of property value or water consumed. For example, a residence and a casino pay the same flat fee. The recommended assessment methodology is based on assessed property value. The division anticipates it will review feedback from the counties and work with the Department of Taxation to update the water assessment guidance letter by the end of this year.

Governor Lombardo thanked him for his presentation. There were no questions or comments.

6. **Presentation of Annual Follow-Up Reports Pursuant to NRS 353A.045 and IIA Standard 2500.A1.** (Information Only)

   A. (DIA 22-03) Department of Health and Human Services – Transportation Services; Beatriz Mena-Ortiz, Audit Manager.

Beatriz Mena-Ortiz, audit manager, stated this is the first annual follow-up to the Department of Health and Human Services, Transportation audit, DIA Report No. 22-03. The audit focused on improving and expanding transportation services to provide increased access to food for food insecure households. The audit identified approximately $541 million dollars in annual Medicaid payments resulting from health issues linked to nutrition deficiencies. The primary obstacle to accessing affordable and nutritious food is transportation. Two recommendations remain outstanding. DHHS is taking action to improve transportation services. DHHS began conducting quarterly audits of non-emergency transportation services in October 2022. The audits examine Medicaid client pickup and drop off locations, client information accuracy, and Medicaid services provided. The audit recommended DHHS analyze transportation costs to determine the actual cost of providing transportation. In the six-month status report, the department anticipated including the study on the appropriateness of the per member per month (PMPM) rate as a deliverable when the Non-Emergency Medical Transportation Contract terminates June 30, 2025. DHHS reports having made efforts to expand transportation services to Nevadans and increase access to nutrient-dense fresh food in rural, frontier, and underserved communities. The Division of Public and Behavioral Health was awarded the SPINE grant which promotes equitable and sustainable food and nutrition security. The Aging and Disability Services Division competitively sub-awarded funding for transportation services to community partners across Nevada. The Department also updated the Nevada 211 website to reflect available transportation services. The purpose of the audit recommendation was to address food insecurity within the state and increase access to affordable and nutritious food for individuals living in food deserts and food insecure households. The department needs to make efforts to expand transportation services to specifically target food insecure households. Ms. Mena-Ortiz thanked DHHS for their assistance in preparing the report and stated that agency leadership is here to update the committee on new developments since the status report was issued and to answer any questions the committee may have.

Deputy Director Reynolds of the Department of Health and Human Services along with Administrator Stacie Weeks with the Division of Health Care Financing and Policy were present to answer questions. Deputy Director Reynolds stated Health Care Financing and Policy is working with their vendor, Medical Transportation Management, to modify their current cost report and is adding an additional cost report that provides an aggregated amount of cost per recipient. The current expiration of the non-emergency medical transportation contract is June 30th, 2025 and the division is considering using the two-year extension. The division's current actuarial contract expires December 31, 2025, and the division plans to add an actuarial sound rate setting process in its next RFP for the transportation vendor. Deputy Director Reynolds stated that Administrator Weeks is available to provide an additional information on that contract if needed.

Administrator Weeks stated that, with regard to expanding transportation services to food insecure households, the department's first success was updating and finalizing the food security plan. It includes recommendations to increase representation from housing sectors, tribal communities, those who experience food insecurity, and those with decision making authority related to food and security. Additional recommendations include expanding client centered options for those who have limited access to grocery stores, cooking and storage facilities and meeting with regional transportation commissions to review best routes and evaluate whether populations who are experiencing food insecurity or, are at higher risk for food insecurity, have best access to grocery stores. Now that the plan is finalized, the next step is implementation. The Office of Food Security recently applied for and received approval to take on two AmeriCorps service members to specifically help with implementation of the goals and objectives outlined in the food security plan. The department is also developing standard language for contracts and subgrants involving transportation services to ensure a more granular collection of services by eligibility of the clients, and the department will be including a requirement in the master subgrant template requiring sub-recipients to maintain current information on Nevada 211.

Administrator Weeks stated they also have some updates on expanding services to the youth population -- the Division of Child and Family Services has funding for Child Welfare Youth Travel and Placement Prevention Funds. Funding can be used to support public transportation and transporting youth to visit siblings and relatives to promote family relations. While this funding is not necessarily used for food insecurity, the division is looking into and developing a policy that will help families who appear to have food insecurity issues gain eligibility with the Division of Welfare and Supportive Services. Additionally, the Division of Welfare and Supportive Services has programs that provide transportation services to food insecure households through the NEON and SNAP ET programs. Participants, including parents of minors, can receive various types of transportation assistance including gas reimbursement, bus passes, and reimbursement for car repairs, car registration, driver's license, and car insurance.

Treasurer Conine stated the way that the division constantly takes audit recommendations and looks for ways to kind of keep going on the same logical path, as opposed to just answering the questions put in front of them or the task put in front of them, is exemplary. He then stated that he wishes every agency did the same thing right, took the direction, and then just ran with it. Treasurer Conine thanked division staff and stated that he thinks the layering of services is vitally important and that they know, based on how the federal money comes in, that sometimes you can't get it from one bucket but you can get it from another bucket and it really does seem like they are paying attention to all the buckets.

Ms. Babsky requested clarification on Nevada 211, asking whether it is an online portal or a phone portal. Jeff Duncan, Division of Aging and Disability Services, stated it is a phone portal and an online option as well, both available 24 hours a day.

Governor Lombardo pointed out that, per recommendation number one, last paragraph – auditor comment, DHHS was going to reevaluate the billing model and the possibility of a per member per month rate as a deliverable in the 6-month status report. Governor Lombardo continued, asking, with the contract expiring two years from now, is that something that could be implemented if the report suggests waiting a year and a half to make adjustments. He requested confirmation that he was understanding correctly.

Administrator Weeks stated that it was a good question because of the current contract they are under and that their goal at this point is to implement a PMPM and also hire an actuary. It was an oversight on their part to not include the actuary in their budget. For the next session, they will be seeking funding to have an actuary in place and to also start using an actuary when they set rates. She continued, stating that in the meantime, the division is looking at their cost reports and using their audit team. The division will have, by the end of next month, more information to set a PMPM that they at least feel that they understand from a cost perspective.

7. Approval of the Annual Audit Plan Pursuant to NRS 353A.038. (For Action)

Administrator Lowman stated tab 7 is the audit plan for fiscal year 2024 that DIA is requesting approval from the committee. The additional audits identified are annotated in red with, at least in the one case of the Charter School Authority, an anticipated estimated presentation date of approximately a year from now. The other two on the list are requests and DIA will certainly get to them as quickly as possible. The other audits attempted to broaden the description just a little bit to give more explanation of what DIA would anticipate auditing when DIA went in there. Administrator Lowman continued, stating that expectation could change or be modified, but in general, that's the direction that DIA would go.

Motion: Approve Annual Audit Plan Pursuant to NRS 353A.038
By: Treasurer Conine
2nd: Attorney General Ford
Vote: Passed unanimously

8. Approval of the Annual Report Pursuant to NRS 353A.065. (For Action)

Administrator Lowman stated that DIA is asking for the committee's approval of the 2023 annual report. Administrator Lowman noted the performance measures for the three sections of the Division of Internal Audits, specifically the two performance measures for the Internal Audits Section in fiscal year 2023. The dollar benefit for each dollar spent on Internal Audits was a return of $104. DIA expects that number to decrease in the coming year due to the loss of a couple of high dollar recommendations and filling some staff positions. He continued, noting that the percentage of recommendations fully implemented stands at 93%, which does not include those recommendations that were deemed to be no longer applicable. Page 13 contains the performance measure on the compliance review section; the percentage of recommendations implemented from the compliance reviews is at 100% for this year. Page 17 shows the performance measures on the percent increase in trainees' overall test scores that sits at a 22% increase, which is just a tad below what was projected. Administrator Lowman stated that DIA is pleased to have been able to initiate internal controls training again after the COVID period and the SMART21 deviations.

Treasurer Conine pointed to page 10, the summary of the Internal Audit performance measures, noting that Administrator Lowman has kept the projected at $70 for every dollar spent on Internal Audit for the third year. Treasurer Conine then stated that number is being exceeded pretty substantially and asked whether it should be boosted up a bit. Administrator Lowman replied that he can certainly look at the appropriateness of that number and if it should be modified.

Governor Lombardo asked who would be pursing that recommendation, in reference to the treasurer's question. Administrator Lowman stated he will pursue that inquiry and make a recommendation up through the GFO for adjusting the number.

Governor Lombardo suggested there might be some other state GFOs that could be pooled to obtain some measurement matrix. Governor Lombardo then asked whether the performance measure percentage of recommendations implemented is actually 100 in the previous two fiscal years. Administrator Lowman confirmed it was.

Governor Lombardo asked if that was exceptional or something that needs to be awarded. Administrator Lowman stated offhand he would agree with him, and that he would characterize these recommendations as going out to agencies on compliance reviews with primarily the state administrative manual and result from the self-assessment questionnaire that is required every biennium. Administrator Lowman continued, stating that the recommendations are solidly based, and there is really no need for an agency not to accept a compliance review recommendation. It doesn't mean it hasn't happened, but there's really very little wiggle room based on the criteria that DIA is using, and this might be another number to follow the Treasurer's recommendation, to take a look at adjusting.

Governor Lombardo stated that in his experience through history, he's encountered numerous people that are never supportive of an audit committee's recommendation. He thinks that needs to be commended.

Motion: Approve of the Annual Report Pursuant to NRS 353A.065
By: Attorney General Ford
2nd: Controller Matthews
Vote: Passed unanimously

9. Status of Outstanding Audit Recommendations. **<u>(Information Only)</u>**

Administrator Lowman stated this is a summary of our outstanding recommendations as of the end of the fiscal year. There are several recommendations that go back a ways and there is a good reason for why they are still there. As an example, 16-05, the very first one, on collections from the Controller's Office, that recommendation was to automate debt assignment. When DIA made the recommendation, SMART 21 was in the works, and that was going to be the mechanism by which the controller's office could achieve that. We know that there's been a shift there, and that is now dependent on the Core Nevada project. So once all of that happens, then DIA would expect that to be fully implemented. Administrator Lowman added that when the committee sees this report next year, he is going to add a column and give a detailed summary of what each of the recommendations is. But in general, it's a matter of waiting for regulations to be approved or a budget to do some IT work, that sort of thing.

Governor Lombardo stated he appreciated his comment on the updating of the matrix, adding that it will be a little more descriptive.

10. Estimated Benefits to Nevadans from Audit Recommendations. **<u>(Information Only)</u>**

Administrator Lowman stated this report, the benefits to Nevadans is a result of fully implemented recommendations. These records, this is a snapshot over time over the last three years. DIA follows fully implemented recommendations with a dollar benefit to Nevadans for nine years. The point being these are recommendations for Nevadans and benefit Nevadans. So, in some cases, it's the amount of money that a recommendation would bring into the state. These are not necessarily hard dollars into the General Fund, but it's what leads DIA to our performance measure, which is shown on page seven.

Governor Lombardo stated that couldn’t recall why he asked Administrator Lowman to update the graph and asked if that had been done and what particular item it was. Administrator Lowman explained that the update he was asking about was on the audit plan and the detail included so that the Governor and the committee members would have more knowledge about what was being requested for approval. Administrator Lowman continued, explaining that the Governor had questions about how the report itself was laid out and why it showed the last three years. The report is a snapshot in time and that shows over the last three years, those that are being tracked so the committee will be able to see new ones that came on or those that were falling off or ready to fall off.

Governor Lombardo pointed to page one of seven, stating that, though the audit is usually identified in each year, along with the total identified dollar benefit, there’s no items listed in fiscal year 2021. Governor Lombardo then added that he thought that was the issue. Administrator Lowman explained that it was because the recommendations from fiscal year 2021 that had a dollar benefit attached to them had not yet been fully implemented and that DIA only takes a benefit once it has been fully implemented and that DIA doesn’t take the benefit until the next full fiscal year.

Governor Lombardo explained that he was unclear as to the the actual item being measured, pointing to the fact that, even though the benefit hasn't been received, a total of $93,600,000 is listed. He recalled that he requested the outstanding audit be identified, which he feels would be a benefit to all the committee members and allow them to opine on why it is taking so long and answer those types of questions moving forward. He then requested that Administrator Lowman implement those recommendations into the next report when presented. Administrator Lowman stated he absolutely would do that.

11. **Presentation of the Division's Internal Assessment and External Validation Pursuant to NRS 353A.045.9 and IIA Standard 1312.** **(Information Only)**

    A. Internal Assessment.

    B. External Validation.

Administrator Lowman stated that, as required by the standards of the Institute of Internal Audits, DIA conducts an internal assessment, as well as an external validation every five years, though the past couple of cycles have extended past the five-year period. Administrator. Lowman then introduced Mr. Steve Weinberger, CPA, to the table, who did the external validation under the auspices of the Institute of Internal Auditors. Administrator Lowman stated that the internal assessment noted some policies and procedures that needed to be updated, which he knew this was coming. He continued, noting that DIA is in the process of fielding the TeamMate+ automated audit management system. Once the system is fully fielded, the policies and procedures will be updated to take the system into account. Administrator Lowman stated that Mr. Weinberger came in several weeks ago and did the independent validation of our results, noting a couple of recommendations and comments that he had. Administrator Lowman was pleased to say that DIA achieved a generally complies with standards evaluation, which is the highest that could be achieved. He then stated that Mr. Weinberger was available to answer any questions the committee may have about what he saw or found, but that DIA is pleased and is already planning to go through the process again in 5 years.

Governor Lombardo pointed out that there's several recommendations on each particular fiscal year and asked Administrator Lowman if he is in agreement with the recommendations. Administrator Lowman stated the recommendations didn't affect the assessment of the generally complies level and that DIA already moved to implement several of the recommendations, which includes being more specific about the origination of an audit on the audit plan. Administrator Lowman elaborated, noting that basis of an audit originating from risk could be the result of DIA's documented risk assessment, the result of an ongoing audit, or the result of a fraud hotline call. DIA implemented that recommendation and still has some checklists to update. Administrator Lowman stated that his intent is to establish a task force in the spring or summer to update policies and procedures and to look at implementing these recommendations. He finished by stating that DIA should have fully fielded the TeamMate system and brought all DIA policies and procedures up-to-date by that time.

Governor Lombardo stated he thinks the report was very well done as a matter of record and appreciated the effort.

12. Committee Members' Comments

Treasurer Conine pointed out that a lot of the Executive Branch Audit Team was in the room and wanted to take a moment and thank them for all their work and their commitment to getting to 110% next year, which is great.

Governor Lombardo asked Treasurer Conine for his recommendation on the threshold on return on the dollar. Treasurer Conine stated it's good. It's not treasury good, but it's good.

13. Public Comment (This public comment period is for any matter that is within the jurisdiction of the public body. No action may be taken upon a matter raised under public comment period unless the matter itself has been specifically included on an agenda as an action item. The Chair of the Executive Branch Audit Committee will impose a time limit of three minutes. Public comment may be provided in person or via telephone. To provide public comment via telephone, dial 775-321-6111 or 702-329-3435. When prompted to provide the meeting ID, please enter 486 812 006#. When the Chair opens the public comment period, dial *5 to request to be unmuted. To resolve any issues related to dialing in to provide public comment for this meeting, please call (775) 684-0222.)

No public comment presented for the committee's information or consideration.

14. Adjournment **(For Action)**

The meeting was adjourned.