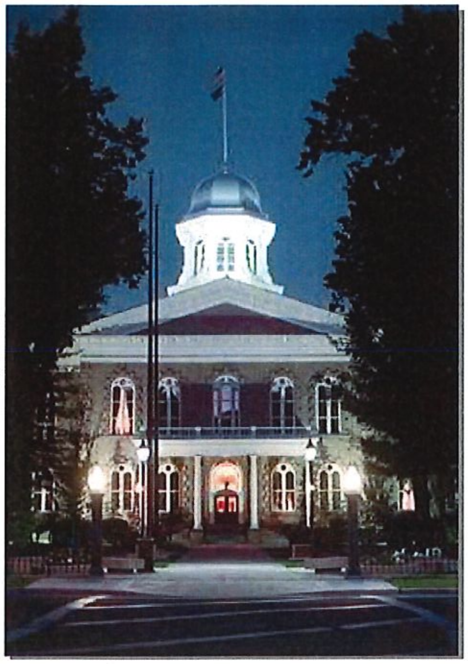

State of Nevada
Governor's Finance Office
Division of Internal Audits

Audit Report

Nevada Department of Veterans Services

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Northern Nevada State Veterans Home

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Improved transparency is necessary to validate veterans home financial data and ensure quality of care for residents.

DIA Report No. 24-01
November 2, 2023

EXECUTIVE SUMMARY
Nevada Department of Veterans Services
Northern Nevada State Veterans Home

Objective: Improve Transparency with the Northern Nevada State Veterans Home Management

Validating the accuracy of facts stated on invoices, payments, supporting documents, and records generated throughout the course of North Home operations will reduce the likelihood of inaccurate transactions and financial misunderstandings as well as increase the fiscal accountability of the management company. A greater understanding of financial information will improve transparency between the parties. Based on limited, unsupported information provided by the management company, there has never been a balance of funds available for distribution to NDVS. The management company provides summary information only, which is noncompliant with the contractual requirement that NDVS has unlimited access to financial data. By withholding supporting records, including the facility bank account statements, the management company has prevented NDVS from independently verifying financial data.

The management company has been given full control of facility finances. This includes control of the bank account, which allows the corporate parent of the management company to pay themselves any funds they consider owed to them, without verification or approval from NDVS. Throughout the life of the contract, the company has made regular withdrawals intended to pay themselves for funds loaned to the facility, the management fee due from the state, and for a share of expenses allocated among all facilities under the corporate parent's management. These reimbursements of costs allocated to the North Home are conducted without any documentation created to support the transactions. DIA was unable to reconcile net bank transfers per the bank statements to the expected transfers based on representation from the management company. There is no correlation between known amounts due to the corporate parent and the schedule of funds withdrawn from the bank account.

The contract allows NDVS to retain from VA per diem funds a holdback fee in the amount of $10 per day that a patient resides in the facility. The management company made a unilateral decision to exclude non-veteran residents from the calculation of the allowable holdback fee, intentionally reducing funds available to NDVS to cover their share of North Home costs. During the start-up period, NDVS was obligated to reimburse the management company for funding provided to cover expenses that exceeded revenues. The management company did not properly provide an itemized breakdown of the funds provided and charged NDVS for non-cash expenses that did not require funding. The company failed to address discrepancies in the fees due to the corporate parent and the payments remitted by NDVS.

As a result of this audit, NDVS has received their first distribution of funds. In August 2023, NDVS notified DIA that the corporate parent and management company announced a distribution of $967,632 for the six months ending June 2023.

Establishing a correlation between the cost of the contract to the state and actual services received would enhance transparency between NDVS and the corporate parent and management company, and facilitate a greater understanding of North Home financial operations between the two parties. The fee due to the corporate parent is dictated solely by North Home revenue. The state owes the parent 5% of gross facility revenues each month, exclusive of any other factors. The corporate parent does not track services provided, making it difficult to assess the value to the state of paying the company to operate the facility. The extent to which the twenty-eight individual services covered by the fee have been performed cannot be determined without records of service provided. The list of covered services appears inflated, with certain included services seeming unnecessary or rarely necessary.

There is a vague correlation between the management fee due and service provided. When facility revenue increases due to additional charges to residents, the company is owned a higher fee. There is no clear proportional or otherwise increase in the need for service in response to this fee increase. This condition effectively means that the management company earns an increased fee without increased need for service. Though the fee is only 5% gross revenues, it is a large portion of total facility profit after taking all other expenses into account. The corporate parent has been paid approximately 96% of facility profit through the end of 2022.

Revising the reserve calculation to reflect true cash needs would be consistent with the purpose of the reserve as characterized in the contract, improve the transparency of financial matters with the management company, and allow NDVS to better identify cash available for distribution. Every six months, NDVS is due any cash balance above a calculated reserve requirement. The management company overstates this reserve requirement by misrepresenting certain non-cash accounting adjustments as cash used in operations. Among these adjustments is an expense for the holdback fee NDVS retains from VA per diem funds, which does not represent an outflow of facility funds. Omitting these non-cash accounting adjustments from the reserve calculation would lower the maximum reserve funds left in the bank and increase the funds available for distribution to NDVS.

Revising the calculation to reflect a reserve requirement based on one month per diem would simplify the reserve and decrease ambiguity in the management company's calculation. A clear and defined reserve calculation will improve the transparency between the management company and NDVS and will allow NDVS to better identify cash available for distribution to the state. In their response to the state's proposal for management services, the corporate parent requested 35 days of operating expenses be used for the reserve instead of one month per diem as the state proposed. The justification for this change was based on the short-term nature of the contract and the expectation that costs would be high in the first 1-2 years of operations, each of which have become outdated. The response also included misleading data that incorrectly characterized the use of one month per diem. The management company's calculation of the reserve is ambiguous, as it fails to define operational expenses. There is no clear correlation between certain expenses used and operational needs. The use of one month per diem would limit this ambiguity, as per diem payments are clear and defined. A revision to the management company's six-month distribution analyses using one month per diem shows that NDVS would have received two distributions through the end of 2022.

Present Financial Statements on a Fiscal Year Basis .... page 34

Presenting the financial statements on a fiscal year basis to match the state's fiscal year will facilitate the ability of NDVS and other state representatives to reconcile and assess necessary North Home financial data. An enhanced ability to assess the North Home financial data will improve the transparency of operations between NDVS and the North Home management company and mitigate the prevalence of financial misunderstandings. The State of Nevada operates on a July 1 – June 30 Fiscal Year. NDVS records financial transactions in DAWN in accordance with this fiscal year period. The North Home financial statements generated by the management company reflect calendar year data. The conflicting periods complicate the ability to reconcile facility financial data to the state's accounting records and identify any discrepancies between the two pieces of data.

The management company is contractually required to report Medicaid data for the state's fiscal year, meaning the necessary calendar year financial information for the facility must be converted to fiscal year totals. This process is contradictory to the Medicaid rules requiring the reports to be filed for the twelve-month period conforming to the facility's fiscal year for financial statements. The decision to present calendar year financial statements was a unilateral decision made by the corporate parent as part of the creation of the management company operating agreement, to which the corporate parent is the sole member.

Improve Oversight of the Management Contract .... page 39

Improving oversight of the management contract will increase accountability of the corporate parent and management company, enhance the transparency of operations between NDVS, the corporate parent, and the management company, and ensure the quality of care for residents of the North Home is provided at a high standard and aligned with objectives. The facility most recently received a 1-Star health inspection rating and is rated 2-Stars overall by the Centers for Medicare & Medicaid Services (CMS). The 1-Star health inspection rating was the result of 37 health deficiencies, which is substantially higher than both the Nevada average (13.5) and the United States average (8.7). A follow-up inspection found the deficiencies were corrected, but the facility rating remains 2-Stars based on the CMS ratings methodology. This conflicts with the contractually stated objective of the state to attain and maintain a 5-Star rating. Furthermore, an annual survey performed by the VA approximately six months after the CMS follow-up survey showed a number of findings, suggesting corrective actions were not implemented for the long term.

INTRODUCTION

At the direction of the Executive Branch Audit Committee, the Division of Internal Audits (DIA) conducted an audit of the Nevada Department of Veterans Services (NDVS). The audit focused on the fiscal management of NDVS's Northern Nevada State Veterans Home. The audit's scope and methodology, background, and acknowledgements are included in Appendix A.

DIA's audit objective was to develop recommendations to:

- ✓ Improve transparency with the Northern Nevada State Veterans Home management.

Nevada Department of Veterans Services Response and Implementation Plan

DIA provided draft copies of this report to NDVS for review and comment. DIA considered NDVS's comments in the preparation of this report; NDVS's response is included in Appendix B. In its response, NDVS accepted the recommendations. Appendix C includes a timetable to implement the recommendations.

NRS 353A.090 requires within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps NDVS has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six-month follow-up results to the committee and NDVS.

The following report (DIA Report No. 24-01) contains DIA's *findings, conclusions,* and *recommendations*.

Respectfully,

Warren Lowman
Administrator

Improve Transparency with the Northern Nevada State Veterans Home Management

The Nevada Department of Veterans Services (NDVS) should improve transparency with the Northern Nevada State Veterans Home (North Home) management by:

- Validating North Home financial data;
- Linking management fee to services provided;
- Revising reserve calculation to reflect true cash needs or as outlined in the Request for Proposal;
- Presenting financial statements on a fiscal year basis; and
- Improving oversight of the management contract.

Improving transparency between the Nevada Department of Veterans Services and the North Home management will ensure:

- Funds due to the state are distributed accordingly;
- Costs being charged to NDVS by the corporate parent and management company are true and accurate; and
- The management company's calculation of the 35-day reserve reflects the terms outlined in the contract.

Improving transparency will provide for enhanced oversight by NDVS staff of veterans' home operations. Enhanced oversight will facilitate greater care and protection of residents. These improvements will benefit NDVS and veterans by just over $2.4 million.

Photo: Northern Nevada State Veterans Home, Sparks, NV. Provided by Vance Fox Photography.

Operation of Northern Nevada State Veterans Home Contracted to Private Sector Company

The North Home began operations in 2019. The Northern Nevada Veterans Home was a policy priority for the Governor Sandavol administration and was delegated to the Nevada Department of Veterans Services for responsive implementation. A private sector-focused solution was deemed the best, fastest way to deliver on the policy priority to support Nevada's veterans requiring skilled nursing home care.

The operational model for the North Home differs from the model for the long established Southern Nevada Veterans Home in Boulder City, Nevada. The South Home is operated by the state. State leadership determined the best option to manage and operate the North Home was using a third-party, private contractor to administer services for Nevada's skilled nursing home veteran patients. Per the contract summary, an experienced private sector management company was necessary because there were no state employees with the experience necessary to stand up a new state veterans home.

The North Home is owned by the State of Nevada. NDVS, as the owner, is contractually responsible for the property and for all home equipment and property that exceeds $2,000 in value.

The private sector company, Avalon Health Care Group (herein referred to as the corporate parent) awarded the contract was given full operational control of the North Home, including control of finances. Avalon executes the management contract for the North Home through a subsidiary LLC, an onsite entity (herein referred to as the management company).

NDVS involvement in financial matters is limited to the receipt of federal per diem payments from the Department of Veterans Affairs (VA) and the remittance of both the per diem payments and the management fee due to the corporate parent through the management company.

NDVS was temporarily responsible for reimbursing the corporate parent for funds spent to cover operating losses during the startup period, which lasted through October 2019. Thereafter as operational practices continued, NDVS has been confined to information dictated and controlled by the corporate parent and management company, which is in violation of the terms of the contract stating that NDVS is to have unlimited access to financial data.

Most notably, per the contract for management services, NDVS shall receive any cash balances in excess of a reserve requirement every six months. At each six-month interval, beginning with the six months ended June 2020, the management company has represented to NDVS there was no cash balance above the reserve requirement available for distribution.

NDVS has been unable to determine why funds have been insufficient for a distribution nearly four years since the first residents were admitted, which spanned six distribution intervals. The only North Home information made available to NDVS is the cash balance and reserve requirement constructed and presented by the corporate parent and management company. DIA's review determined this information is provided without adequate documentation supporting the figures. DIA noted certain issues with the management company's method of calculating the reserve, which resulted in an inflated reserve requirement. These issues were communicated to both NDVS, the corporate parent, and management company.

First Distribution of Funds Announced

In August 2023, NDVS notified DIA that the corporate parent and management company announced a distribution of $967,632 for the six months ending June 2023. A review of the management company's distribution analysis showed that the issues noted by DIA had been corrected in the calculation of the reserve requirement. Given the expected consistency in the resident census, payer sources, and revenues, NDVS should expect a bi-annual distribution from the corporate parent of approximately the same amount unless a catastrophic occurrence impacts costs.

The unexpected distribution from the corporate parent does not of itself mitigate the issues, discrepancies, inaccuracies, miscalculations, and lack of transparency of both the corporate parent and management company from further review and audit of NDVS. While not specifically recommended in this audit report, NDVS is advised to pursue a comprehensive, independent financial audit of the management contract with Avalon with respect to its contractual obligations and to pursue appropriate financial remedies as allowed for under the contract and state law.

Validate North Home Financial Data

The Nevada Department of Veterans Services (NDVS) should validate Northern Nevada State Veterans Home (North Home) financial data by independently verifying the accuracy of facts in the information presented by the management company. Throughout the life of the contract, the corporate parent and management company has provided NDVS with limited summary information, while withholding the relevant supporting documents necessary to corroborate the data. The management company controls and creates the only information made available to NDVS, which includes invoices for payment. NDVS does not have the independent access to financial data necessary to confirm the accuracy of the information provided by the management company. This restriction is not in compliance with the contract, which calls for NDVS to have unlimited access to financial information.

There had not been a distribution of cash to NDVS, which led to various financial misunderstandings. The management company has presented inaccurate financial data in multiple instances, which was not detected by NDVS, given they did not have access to the supporting records necessary to do so. Validating the accuracy of facts stated on invoices, payments, supporting documents, and records generated throughout the course of North Home operations will reduce the likelihood of inaccurate transactions and financial misunderstandings as well as increase the fiscal accountability of the management company. A greater understanding of financial information will improve transparency between the parties.

Funds Not Distributed to NDVS as Envisioned in Contract

According to the terms of the management contract, the management company may hold a contingency fund (i.e. a reserve) equal to the amount of cash necessary to operate the North Home for 35 days. The management company requested the number of days covered by the reserve be 35 based on their representation that "35 days of cash on hand is the senior living industry best practice." The reserve requirement represents the maximum amount of cash to be retained in the North Home bank account. Any cash balance above the reserve at the end of each six-month period is to be distributed to NDVS. At no point during the life of the contract, which went into effect in 2018, has NDVS received a distribution.

Every six months, the management company provides NDVS with a distribution analysis report showing the current cash balance per the accounting records against the calculation of the 35-day reserve. Exhibit I summarizes the results of each six-month distribution report that has been provided to NDVS through the end of 2022.

Exhibit I

Summary of Distribution Reports

6-Month Ended	Cash Balance	35-Day Reserve	Reserve in Excess of Cash Balance	Available for Distribution
June 2020	$446,477.00	$1,120,205.00	($673,728.00)	$0.00
December 2020	$589,286.00	$1,213,870.00	($624,584.00)	$0.00
June 2021	$512,325.00	$2,655,503.00	($2,143,178.00)	$0.00
December 2021	$815,259.00	$2,739,693.00	($1,924,434.00)	$0.00
June 2022	$275,035.00	$2,780,538.00	($2,505,503.00)	$0.00
December 2022	$1,380,246.00	$1,608,158.00	($227,912.00)	$0.00

Source: DIA Analysis of North Home financial records.
Note: Operating expenses spiked heavily during the COVID pandemic, which resulted in the calculation of a higher reserve for June 2021 – June 2022.

The reserve requirement has exceeded available cash at each six-month interval. There has been no cash available for distribution to NDVS. Moreover, the management company has failed to provide adequate documentation substantiating the figures reflected in the distribution reports.

Contract Calls for Unlimited Access to Financial Data

The management contract stipulates that NDVS is to have unlimited access to financial data. Exhibit II displays the full excerpt from the contract.

Exhibit II

Management Contract Excerpt

NDVS NEVADA DEPARTMENT OF VETERANS SERVICES

Serving Nevada's Heroes

MANAGEMENT AND OPERATION OF NORTHERN NEVADA STATE VETERANS HOME

Contractor Responsibilities

NDVS shall have unlimited access to all medical records, administrative and financial data, and any other information it deems necessary in order to audit financial records, verify services, verify the quality of care provided, resolve complaints, respond to inquiries and/or establish benefits

Sources: NDVS Website and North Home Management Contract.

The contract further stipulates that the management company shall provide all necessary information, data, statistics, and reports for NDVS to bill third-party payers. The management company has limited NDVS's access to financial information by providing summary data only in a format they control and create. This is a non-compliant process that leads NDVS to act without assurance the information presented is true and accurate.

NDVS Unable to Independently Verify Financial Data

NDVS has been unable to confirm the accuracy of financial data presented by the management company. The management company does not provide source records or other supporting documentation necessary to corroborate the data, nor have they provided NDVS functional access to the accounting system. The following are the primary financial-related responsibilities of NDVS as part of North Home operations, each of which are transacted based solely on summary reports and instructions created and provided by the management company:

- Invoice the VA for federal per diem payments based on the veterans residing in the North Home;
- Collect funds from the VA and remit to the management company, less an agreed-upon $10 per patient day holdback fee; and
- Pay the management fee in the amount of 5% of total gross revenues generated from North Home operations.

<u>NDVS Receives Summary Information Only</u>

NDVS has relied exclusively on the summary reports created and provided by the management company to fulfill financial obligations without the ability to verify the accuracy of the data. The management company's restriction of financial data has led to various financial misunderstandings. The following are among the various concerns encountered by NDVS:

- The management company submits a monthly invoice to NDVS for the management fee. The invoice is accompanied by an operating statement reflecting all generated North Home revenues recorded by the management company. NDVS does not have access to supporting data to confirm the accuracy of the figures recorded in the operating statement by the management company; and
- Per diem payments from the VA are provided to subsidize veterans' costs of residing in the home, which are entered on the North Home financial statements as revenue. NDVS invoices the VA for the per diem payments based on summary census data provided by the management company. NDVS is unable to trace the amount of per diem payments invoiced to the VA directly to the revenues recorded on the financial statements.

North Home Bank Statements
Withheld by Management Company

NDVS is not provided with the monthly bank statements for the North Home operating account, which is controlled by the management company. The distribution analysis reports sent to NDVS every six months are accompanied only by a balance sheet showing the cash balance per the North Home's accounting system. The cash figure shown in the analysis report is a duplication of the cash balance from the balance sheet, each of which is generated from the accounting system. The management company is attempting to prove the balance shown on the analysis report using a second copy of the balance from the same source. Withholding the bank statements prevents NDVS from reconciling the bank's record to the North Home's available cash.

Management Company Pays Themselves

Per the contract, all North Home assets recorded on the financial statements – including the funds held in the North Home bank account – are the property of the state. The bank account, however, is left under the full control of the management company. The management company can deposit and withdraw North Home funds without the knowledge or approval of NDVS representatives. According to the management company, the following financial transactions take place between the North Home and the corporate parent through the North Home bank account:

- Loans (Deposit) – When cash on-hand is insufficient to cover expenses, the corporate parent will loan funds to the North Home;

- Loan Repayment (Withdrawal) – The corporate parent is reimbursed for the loans provided to the North Home;

- Management Fee (Withdrawal) – The management fee due to the corporate parent is paid from the North Home bank account; and

- Cost Reimbursements (Withdrawal) – The corporate parent is reimbursed for the North Home's allocated portion of costs shared between all skilled nursing homes under the corporate parent's management.

NDVS does not remit funds directly to the corporate parent. Funds due to the corporate parent – including the management fee and the per diem funds received from the VA – are transferred to the North Home bank account. The transactions listed above are independent from the payment of funds sent to the North Home from NDVS and do not require the knowledge or approval of NDVS.

Corporate Parent Paid
Themselves Disputed Fee

The North Home management company corporate parent has the ability to pay themselves the management fee without NDVS knowledge or approval. There have been multiple instances in which NDVS questioned the amount of the monthly management fee. The transfer of funds from NDVS to the North Home bank account may be delayed when discrepancies occur pending clarification of the charges. In one such instance, NDVS had concerns with the $111,636 fee being charged for the month of December 2021 and withheld the funds. Those concerns were never resolved, and the funds were not remitted to the North Home.

Withholding the funds, however, has no bearing on the corporate parent's ability to pay themselves. When the corporate parent determines management fees are due, payment is transferred to the corporate parent from the North Home bank account, which does not require the knowledge or approval of NDVS.

Expenses Self-Reimbursed from Bank

The management company corporate parent operates multiple skilled nursing homes outside of Nevada. According to the corporate parent representatives, the company contracts with various vendors to provide services that cover all the homes. These include services such as computer network support, auto insurance, workers compensation, and employee health insurance. The management company corporate parent allocates a portion of its cost for these services to the North Home. The allocated cost is recorded on the North Home income statement as various direct expenses. The North Home management company does not make corresponding payments to the vendors providing the service. Per corporate parent representatives, the corporate parent pays the vendors the amount charged for all homes, then reimburses themselves the portion of the cost allocated to the North Home by transferring funds from the North Home bank account.

<u>No Trace of Transactions</u>

The corporate parent claims the allocation of services across all skilled nursing homes costs the North Home less than it would through individual service contracts. The corporate parent could not validate this claim as none of the financial records provided to NDVS include information regarding these service contracts. There is no evidence that the corporate parent has made an effort to ensure NDVS understands or is aware of the reimbursement arrangements. The share of costs allocated to the North Home are recorded on the financial statements as various common expenses but they are not explicitly identified as costs paid by the corporate parent nor are they summarized as a set of costs included as part of corporate parent-paid services.

NDVS receives financial statements each month but are not privy to the vendor invoices, reimbursement transaction data, or other information substantiating the expenses shown on the statements. The management company controls both the bank account and the payments for vendor services provided to the North Home.

There is a lack of transparency with the reimbursement process. The management company is capable of processing vendor invoices to the corporate parent without independent verification of the charges by NDVS.

Transfers Do Not Match Management Company Representation

During audit field work, DIA obtained the North Home bank statements from the management company. The statements show a substantial number of corporate transfers made over the life of the contract – both loans (deposits) and withdrawals. Exhibit III summarizes the corporate transfers reported in the bank statements by calendar year through March 2023.

Exhibit III

Summary Corporate Transfers – Bank Statements

Year	Loans From Corporate	Corporate Withdrawals	Net Transfer (to)/from Corporate
2018	$35,000.00	$0.00	$35,000.00
2019	$2,143,000.00	($523,245.44)	$1,619,754.56
2020	$817,000.00	($3,775,062.08)	($2,958,062.08)
2021	$1,280,781.18	($3,296,770.92)	($2,015,989.74)
2022	$1,719,810.00	($3,685,032.99)	($1,965,222.99)
2023	$0.00	($495,010.09)	($495,010.09)
Totals	$5,995,591.18	($11,775,121.52)	($5,779,530.34)

Source: DIA Analysis of North Home financial records.

The statements show the corporate parent withdrew approximately $5.8 million more than loaned. The difference represents the self-made payments for the management fees and the cost reimbursements.

Per a summary of payments made from the North Home to the corporate parent prepared for DIA by the management company, a total of $4,122,024 in cost reimbursements and $2,803,404 in management fees were paid through March 2023. Exhibit IV relates these figures to the transfers noted in the bank statements.

Exhibit IV

Analysis of Corporate Parent Self-Payments

Loans Due to Corporate	$5,995,591.18
Management Fees Paid to Corporate	$2,803,404.54
Cost Reimbursements Paid to Corporate	$4,122,024.75
Total Expected Transfers to Corporate	$12,921,020.47
Actual Bank Transfers to Corporate	$11,775,121.52
Variance in Expected Transfers	($1,145,898.95)

Source: DIA Analysis of North Home financial records.

Based on Exhibit IV, the corporate parent reports expected reimbursements totaling about $12.9 million. The bank account shows payments of almost $11.8 million.

A possible explanation for the variance would be the management company has yet to reimburse the corporate parent for approximately $1.1 million in loans. However, available financial records do not support this explanation. The most recent loan from the corporate parent was made in September 2022 for $500,000, which was six months prior to March 2023.

The corporate parent made regular monthly withdrawals during that time period but there is no correlation between the withdrawals and the amounts due. Moreover, the North Home balance sheet liability shows the account titled 'Accounts Payable to Avalon' with a balance of approximately $164,000 due to the corporate parent as of the end of March 2023. Due to the lack of supporting documentation, it is unclear which figures are reliable. Attempts to resolve the variance during the audit were unsuccessful.

<u>No Correlation between Withdrawals and Amounts Due</u>

There is no evident correlation between the bank withdrawals and the known amounts due to corporate. For example, the first withdrawal was in August 2019 for $523,245. Meanwhile, the total of loans, management fees, and cost reimbursements through the end of July 2019 was $1,368,283. It is unclear how the corporate parent decided on the amount of the withdrawal or what combination of monthly loans, management fees, and cost reimbursements were included in the withdrawal. The next withdrawals were all taken on July 29, 2020, for the following amounts:

- $606,761
- $194,947
- $1,758,138

It is unclear how these amounts were determined, why there were three separate withdrawals on the same day, or what combination of monthly loans, management fees, and cost reimbursements were included in the withdrawals. The timing and amounts of withdrawals appear irregular and unsupported; moreover, NDVS was not notified of the withdrawals.

Discrepancies in the Accounting System

Most corporate transfers shown on the bank statements accurately trace to the North Home accounting system. However, discrepancies were noted:

- A $10,000 corporate parent loan was deposited in September 2018 per the US Bank statement. This transaction was not recorded in the North Home accounting system;

- There were corporate withdrawals of $193,230 and $357,805 in February 2021 per the Zions Bank statement. These figures trace to the accounting system; however, they were incorrectly recorded as the payment of payroll taxes;

- The March 2021 statement for US Bank is unavailable. Alternative audit procedures indicate there were no concerning transactions made during the month; however, the unavailability of the statement shows deficient recordkeeping; and

- Per the Zions Bank statement, there was a deposit of $300,000 on August 11, 2021, and a withdrawal of $300,000 on August 13, 2021. The transactions were reportedly excluded from the accounting system because the amounts offset.

While none of these discrepancies indicate the presence of malicious activity, the inaccuracy of the accounting records emphasizes the need to ensure financial data is validated.

Unilateral Decision by Management Company to Exclude Civilian Days

The contract allows NDVS to retain a $10 per patient day holdback fee from the per diem received from the VA. These funds are withheld to cover the costs associated with the State Veterans Home Officer and the purchase, repair, or replacement of equipment over $2,000, i.e., overhead costs paid by NDVS.

NDVS is informed of the amount of the holdback fee each month based on census data compiled by the management company. The higher the number of patient days, the more funds are withheld by NDVS. Through May 2020, the holdback fee was calculated based on the number of patient days of all residents in the home. This included the days of care provided to non-veteran gold star parents and veterans' spouses.

Beginning in June 2020, the management company made the unilateral decision to exclude the non-veteran patient days or 'civilian days' from the holdback fee calculation. This change violated the terms of the contract, which states the holdback fee is calculated based on patient days. The contract indicates the fee will be based on patient days, without exclusion.

Allowable Holdback Fee
Reduced by Management Company

The exclusion of civilian days from the holdback fee led NDVS to remit more per diem funds to the North Home than were required. The state allows the North Home to admit both veterans' spouses and gold-star parents up to 25% of capacity. Just as veteran residents, these non-veteran residents contribute to the overhead costs covered by NDVS. By omitting the civilian days from the holdback fee calculation, the management company retained funds NDVS was contractually entitled to pay North Home ownership costs. Exhibit V summarizes the annual additional holdback fees that would have been retained through March 2023, had the correct census numbers been used.

Exhibit V

Allowable Holdback Fees Not Retained by NDVS

Period	Civilian Days Omitted	Holdback Funds Forgone
2020	890	$7,730.00
2021	1658	$16,580.00
2022	1765	$17,650.00
Jan - March 2023	268	$2,680.00
	Total Benefit to the State	$44,640.00

Source: Retroactive calculation completed by management company.
Note: Holdback fee was contractually set at $8 per patient day during the start-up period, which remained in effect through September 2020.

Over the life of the contract, the state has remitted $44,640 in VA per diem to the North Home that should have been retained as holdback fees. DIA finds it concerning that a determination was made to adjust the calculation to prevent NDVS from retaining additional funds meant to cover North Home ownership expenses. The unilateral action on the part of the management company demonstrates the lack of transparency that has characterized the company's operational approach since the North Home opened.

As of the writing of this report, the management company has agreed to arrange a refund of these funds with the Director of NDVS.

NDVS Overpaid Operating Deficits

The contract for management services of the North Home went into effect in August 2018. While the North Home did not begin generating revenues until June 2019, start-up costs were incurred at the onset of the contract. Consequently, the North Home was operating at a deficit and did not start generating positive net income until revenues exceeded expenses. During the months that revenue streams were nonexistent or insufficient to cover costs, the management company provided funding to cover the deficits (i.e., expenses in excess of revenues). Per the contract, NDVS would reimburse the management company for this funding. Exhibit VI highlights the language from the contract regarding this matter.

Exhibit VI

Management Contract Excerpt

NDVS NEVADA DEPARTMENT OF VETERANS SERVICES
Serving Nevada's Heroes

MANAGEMENT AND OPERATION OF NORTHERN NEVADA STATE VETERANS HOME

Negotiated Items

NDVS will pay the pre-opening start-up operating costs (which includes management fees) during the pre-opening start-up period and the initial census fill-up period operating costs (which includes management fees) equal to the amount of each month's operating deficit incurred until the monthly operating deficits have reached a Cumulative Breakeven for three (3) consecutive months. The Contractor may invoice NDVS monthly for direct expenses incurred and paid out by the Contractor. The invoice will be itemized based on allowable expenses equivalent to the operating deficits.

Sources: NDVS Website and North Home Management Contract.
Note: 'Cumulative Breakeven' was fulfilled via monthly payment of the operating deficit by NDVS and is not a factor in this assessment.

Rather than itemize direct expenses incurred and paid, the amount charged to NDVS by the management company was a net loss per the income statement, adjusted for the management fee. Depreciation expense is included in the total expenses on the income statement, which is not a direct expense incurred and paid out by the management company.

<u>NDVS Reimbursed a Non-Cash Expense</u>

NDVS was sent an invoice each month the North Home incurred a deficit funded by the management company. The amount charged equaled net loss per the income statement, adjusted for the management fee (which is on the income statement as an expense but invoiced separately). This calculation implies that the management company directly paid for all income statement expenses that exceeded revenues, excluding the management fee expense. The income statement includes depreciation expense, which is a non-cash accounting adjustment made to depreciate the cost of significant property in increments over an extended period. The expense does not reflect the actual use of funds. By including depreciation expense in the invoice total, the management company was charging NDVS an amount higher than actually paid. Exhibit VII shows the calculation of the expenses funded by the management company (i.e. the amount that should have been charged to NDVS) and compares those to the amounts charged to NDVS.

Exhibit VII

Operating Deficits Reimbursed by NDVS

Month	Revenue	Expenses	Net Loss (Expenses in Excess of Revenue)	Exclude Mgt Fee Expense from Net Loss	Exclude Depreciation Expense from Net Loss	Expenses Paid by Mgt. Co. (Should be charged to NDVS)	Amount Charged to NDVS	NDVS Overpaid
Oct-18	$0.00	$50,279.62	($50,279.62)	$37,500.00	$0.00	($12,779.62)	($12,780.00)	($0.38)
Nov-18	$0.00	$23,097.52	($23,097.52)	$15,000.00	$0.00	($8,097.52)	($8,098.00)	($0.48)
Dec-18	$0.00	$40,809.61	($40,809.61)	$15,000.00	$0.00	($25,809.61)	($25,810.00)	($0.39)
Jan-19	$0.00	$64,393.41	($64,393.41)	$15,000.00	$37.77	($49,355.64)	($49,393.00)	($37.36)
Feb-19	$0.00	$115,440.07	($115,440.07)	$15,000.00	$37.76	($100,402.31)	($100,440.00)	($37.69)
Mar-19	$0.00	$102,355.41	($102,355.41)	$15,000.00	$264.99	($87,090.42)	($87,355.00)	($264.58)
Apr-19	$0.00	$112,638.53	($112,638.53)	$15,000.00	$279.62	($97,358.91)	($97,639.00)	($280.09)
May-19	$0.00	$228,581.37	($228,581.37)	$15,000.00	$608.67	($212,972.70)	($213,581.00)	($608.30)
Jun-19	$19,799.63	$293,428.05	($273,628.42)	$15,000.00	$1,209.12	($257,419.30)	($278,428.00)	($21,008.70)
Jul-19	$62,095.34	$395,094.75	($332,999.41)	$15,000.00	$1,209.12	($316,790.29)	($317,999.00)	($1,208.71)
Aug-19	$129,891.43	$444,765.20	($314,873.77)	$15,000.00	$1,320.56	($298,553.21)	($299,874.00)	($1,320.79)
Sep-19	$188,405.26	$472,806.03	($284,400.77)	$15,000.00	$1,386.25	($268,014.52)	($269,401.00)	($1,386.48)
Oct-19	$498,230.05	$533,271.46	($35,041.41)	$24,911.50	$1,386.25	($8,743.66)	($10,130.00)	($1,386.34)
							Total Benefit to the State	($27,540.29)

Source: DIA analysis of North Home financial records.
Note: Management fee is a contractually set at $15,000 per month when 5% of revenues is less than $15,000.
Note: October 2018 statement reflected the North Home's first three months of data, starting August 2018.
Note: Sub-dollar overpayments are the result of invoices rounded to the nearest dollar.

With the exception of June 2019, NDVS was over-charged by the amount of depreciation each month the management company funded an operating deficit. In June 2019, the management company billed NDVS using total expenses instead of net loss, which disregarded $19,800 in gross revenues. NDVS was over-charged by the gross revenue plus depreciation.

Invoices Not Itemized

The contract made clear that invoices would be itemized based on allowable expenses equivalent to the operating deficits. None of the 13 invoices sent to NDVS to reimburse operating deficits from October 2018 to October 2019 included itemized breakdown of expenses paid by the management company. Exhibit VIII displays the invoice for June 2019 as an example.

Exhibit VIII

June 2019 Operating Deficit Invoice

Avalon Health Care Management, Inc.

Invoice

Invoice Date:	June 30, 2019		
Services Provided to:	Avalon Care Center - VA Reno, LLC		
			Amount
Description:	Operating Expenses:	June 2019	278,428
	Balance Due		**278,428**

Avalon Health Care Management, Inc.
206 North 2100 West
Salt Lake City, UT 84116
Attn: David Giles
Telephone: (801) 596-8844

Source: Management company invoice.

The invoice does not itemize operating expenses. The invoice shows the total income statement expenses for the month, which were $292,428, adjusted for the $15,000 management fee ($292,428 - $15,000 = $278,428). The charge does not account for the $19,800 in North Home revenues.

Additional Management Fee Discrepancies

A comparison of the monthly management fee invoices to the state's accounting system shows some management fees went either unpaid or were incorrectly paid by NDVS. Exhibit IX highlights these discrepancies.

Exhibit IX

Management Fee Discrepancies

Month	Management Company Invoiced	NDVS Paid	Variance
Jan-21	$66,287.00	$0.00	$66,287.00
Feb-21	$57,975.00	$0.00	$57,975.00
Mar-21	$60,460.00	$0.00	$60,460.00
Apr-21	$57,078.00	$55,567.00	$1,511.00
May-21	$64,325.00	$53,091.00	$11,234.00
Jun-21	$61,012.00	$88,147.00	($27,135.00)
Totals	$367,137.00	$196,805.00	$170,332.00

Source: DIA Analysis of North Home financial records.

During April through June 2021, NDVS inadvertently remitted funds for the operating loss invoice instead of the management fee invoice. Though the management company was no longer pursuing operating loss reimbursements past October 2019, the operating loss invoices were still generated as part of the monthly financial reports provided to NDVS, whether or not expenses exceeded revenues. Reasons for the fee going unpaid from January through March 2021 are unclear.

The net total of approximately $170,000 in management fees retained by NDVS do not appear to have affected operations, as the management company pays themselves the fee from available North Home funds and the additional funds would have accumulated in the bank account. The discrepancies underscore the transparency concerns with the management company.

Conclusion

NDVS has been unable to validate North Home financial data. NDVS has only had access to summary information created and controlled by the management company, which is not in compliance with the contract stating NDVS is to have unlimited access to financial information. There have been several inaccuracies and anomalies in the data provided by the management company, which NDVS was unable to identify without the supplemental information and source records necessary to do so. Contractually authorized access to the financial information is critical to NDVS's ability to validate the accuracy of invoices, operating statements, distribution analyses, supporting documents, and any other records generated as part of operations. Independently verifying the accuracy of financial data will decrease the likelihood of processing inaccurate transactions, increase the fiscal responsibility of the management company, and limit financial misunderstandings. A greater understanding of the financial operations of the North Home will enhance transparency with the corporate parent and management company.

Recommendation

1. Validate North Home financial data.

Link Management Fee to Services Provided

The Nevada Department of Veterans Services (NDVS) should link the fee paid to the corporate parent with services provided. The contract is structured so that the state owes the corporate parent 5% of gross North Home revenue each month. This fee is due to the corporate parent regardless of the extent to which any of the covered services were necessary or provided in any given month. Establishing a correlation between the cost of the contract to the state and actual services received would enhance transparency between NDVS, the corporate parent, and the management company and facilitate a greater understanding of North Home financial operations between the two parties.

Management Fee Dictated Solely by North Home Revenue

The revenue generated by the North Home each month is the sole indicator of the amount due to the corporate parent. The state owes the corporate parent 5% of total revenue for the month with no other factors to account for. The primary source of North Home revenue is the daily room rate charged to residents. The North Home also generates ancillary revenues for medical care provided, such as medicine, therapy treatment, and laboratory services. While virtually all these charges are paid for by the VA, Medicaid/Medicare, and private insurance, the corporate parent is due 5% of the total revenue accrued by the North Home regardless of the payer source. Exhibit X displays the revenue section of the December 2022 income statement, including the total net operating revenue (i.e. gross revenue) used to determine the management fee for the month.

Exhibit X

December 2022 Income Statement – Revenue Section

Revenue	
Room Revenue	
Medicaid	433,224.99
Medicare	657,937.78
Private	31,837.00
Residential	31,538.16
Veteran	948,492.00
Insurance	-
Medicare HMO	532.79
Hospice	1,613.97
Adjustment to Room Revenue	-
Total Room Revenue	2,105,176.69
Ancillary Revenue	
Ancillary Revenue	272,199.20
Contractual Adjustments	(259,212.80)
Net Ancillary Revenue	12,986.40
Other Revenue	(8.91)
Net Operating Revenue	**2,118,154.18**

Source: Avalon Care Center – VA Reno, LLC December 2022 Operating Statement.

The corporate parent was due 5% of $2,118,154 for December 2022, which amounted to $105,908. Exhibit XI displays the invoice for this fee that was sent to NDVS.

Exhibit XI

December 2022 Management Fee Invoice

Avalon Health Care Management, Inc.

Invoice

Invoice Date:	December 31, 2022		
Services Provided to:	Avalon Care Center - VA Reno, LLC		
			Amount
Description:	Management Fee Services:	December 2022	105,908
	Balance Due		**105,908**

Source: Avalon Health Care Management, Inc. invoice to NDVS.

The determination of the fee based solely on the amount of revenue accrued for the month provides no correlation between management oversight services provided and the cost to the state of paying the corporate parent to operate the North Home through the management company.

Corporate Parent Does Not Track Services Provided

The contract lists 28 services to be covered by the management fee ("Accounting Services" is further comprised of 14 sub-services). The following are examples of services covered:

- Corporate support;
- Regional staff support and oversight
- Specialized VA federal requirements including VA survey preparatory services, specialty billing, training, and other related program support
- Dietary oversight, raw food cost management, and menu management
- Coordination of computer service coordination for software and hardware
- Information systems support/installation
- Training and education of administrative staff

The covered services are referred to in the contract as "management oversight services," which implies that they are supervisory in nature and are not intended to be carried out as part of day-to-day, onsite operations. The corporate parent operates several other facilities in the country. The services covered by the fee are provided by corporate and regional personnel that split time between multiple facilities. When corporate and regional staff members allocate efforts among different nursing homes, the company does not track the time spent on a specific nursing home or responsibility. There is no quantifiable data generated to determine how much time was spent on North Home operations. The absence of tracked services complicates the ability to evaluate the cost to the state of paying the corporate parent to operate the North Home through the management company.

List of Covered Services Inflated

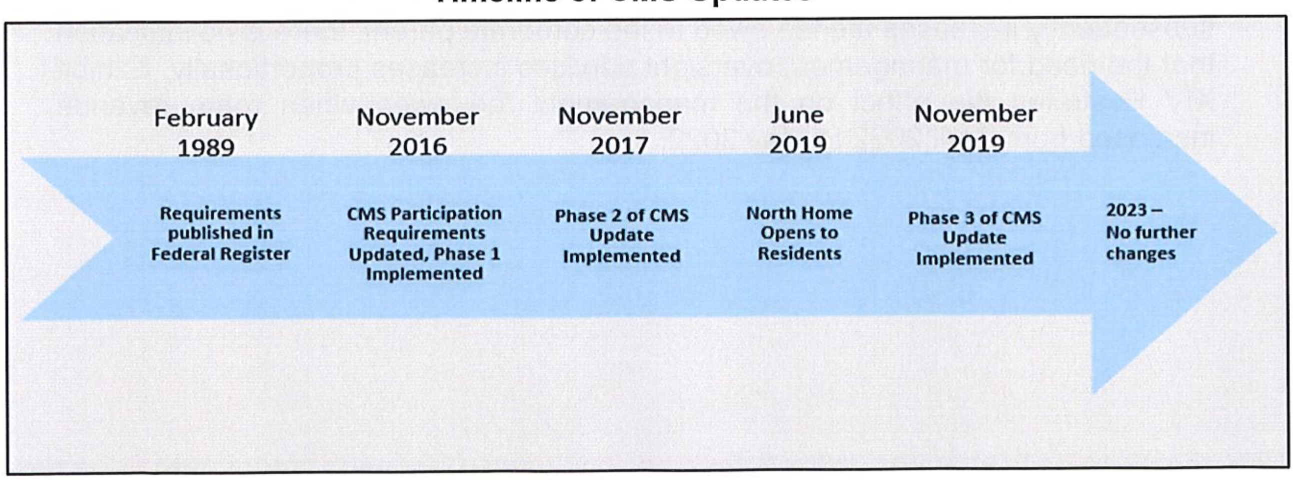
The extent to which the covered management services have been needed at the North Home is debatable without quantified data. The list of 28 individual services covered by the management fee as reflected in the contract gives the appearance that extensive time and effort is needed from the corporate parent, which may strengthen justification of the fee. However, a closer look at the list raises questions as to the need for certain listed services. As an example, one of the services covered by the management fee per the contract reads as follows:

"*Training and Implementation of new CMS Conditions of Participation and other regulatory CMS requirements*"

Based on available data, it would not seem that this service has been needed at any point since the North Home began operations. According to the Centers for Medicare and Medicaid Services (CMS), consolidated Medicare and Medicaid requirements for participation for Long Term Care facilities were first published in the Federal Register in 1989. Those requirements were not updated until the publication of a final rule that became effective on November 28, 2016. The overhauled requirements were implemented in three phases – Phase 1 in November of 2016, Phase 2 in November of 2017, and Phase 3 in November of 2019. Exhibit XII illustrates a timeline of these events relative to the opening of the North Home to residents in June 2019.

Exhibit XII

Timeline of CMS Updates



Source: DIA analysis of CMS requirements for participation.

Based on the timing of events, there have been no changes to the CMS requirements for participation since the North Home opened. While these participation requirements do not comprise every single federal and state law or regulation applicable to the operation of a state veterans home, the lack of changes to these requirements suggest there has been a limited need for training and implementation of new CMS conditions of participation. The inclusion of training on the list of covered services gives the appearance that this service is an ongoing need when, in fact, the service is an intermittent need at best.

Vague Correlation Between Management Fee and Covered Services

Each resident admitted to the North Home amounts to additional funds due the corporate parent. NDVS owes the corporate parent 5% of each dollar of care charged to each individual resident. Exhibit XIII shows the annual total gross revenue generated by the North Home and the resulting management fees charged to NDVS from the North Home's inception through the end of 2022.

Exhibit XIII

Annual Cost of Management Services

Year	Gross Revenue	Management Fee Charged
2018	$0.00	$67,500.00
2019	$2,315,706.19	$230,777.00
2020	$12,853,615.37	$642,679.00
2021	$15,704,167.31	$785,209.00
2022	$17,387,148.83	$869,358.00
Total	**$48,260,637.70**	**$2,595,523.00**

Source: DIA analysis of North Home financial records

Note: Management fee charged through September 2019 was contractually agreed-upon $15,000 per month.

The trend in increasing gross revenues and corresponding increase in management fees reflects the steady increase in occupancy rates since the North Home opened. While an increase in the cost of care incurred by residents subsequently increases the fee owed to the corporate parent, there is no indication that the need for management oversight services increases proportionally. Exhibit XIV illustrates the effect on the management fee owed when room revenue increased from April 2022 to May 2022.

Exhibit XIV

Effect of Residency on Management Fee

	Patient Days	Room Revenue	Fee on Room Revenue
Apr-22	2757	$1,312,152.53	$65,607.63
May-22	2896	$1,346,232.00	$67,311.60
Increase	139	$34,079.47	$1,703.97

Source: DIA analysis of North Home financial records.

The number of patient days increased by 139, which contributed to an increase of $34,079 in room revenue. This amounted to an additional $1,704 in the management fee due on room revenue, a 2.6% increase (1,703.97/65,607.63 = .02597). Despite the increased fee, there is no evidence the need for management services would increase by 2.6% because the occupancy rate or room revenue increased.

<u>Increased Fee Without Increased Service</u>

A general increase in the need for management services may follow overall growth in residency at the North Home but the need for certain covered services should be unaffected by the ongoing enrollment of additional residents. For example, the following are among the listed services covered by the management fee:

- Standardized policies and procedures, including VA specific policies;
- Labor contract negotiations and management;
- Compliance programs; and
- Government relations/legislative coordination.

Though each additional resident amounts to an increase in the management fee, the corporate parent's management company does not revise standardized policies and procedures for the North Home each time a new resident enrolls. Likewise, the management company does not reopen labor contract negotiations with North Home staff following each resident enrollment. This effectively means that the corporate parent receives increased fees without the need to provide additional service.

<u>Management Fee Large in Proportion to North Home Income</u>

While the 5% management fee might appear to be an inconsequential portion of total gross revenues, it's important to note that the revenue figures shown in the previous exhibits do not account for North Home expenses. When compared to the North Home's overall net income (revenue minus expenses), the cost of management services is relatively large. Exhibit XV displays the annual net income/(loss) for the North Home before and after accounting for the management fee.

Exhibit XV

Selection of North Home Financial Data

Year	Income/(Loss) Before Fee	Management Fee	Income/(Loss)
2018	($46,988.19)	($67,500.00)	($114,488.19)
2019	($1,594,784.62)	($230,777.00)	($1,825,561.62)
2020	$1,665,126.16	($642,679.00)	$1,022,447.16
2021	$636,883.60	($785,209.00)	($148,325.40)
2022	$2,030,919.01	($869,358.00)	$1,161,561.01
Total	**$2,691,155.96**	**($2,595,523.00)**	**$95,632.96**

Source: DIA Analysis of North Home financial records.

The North Home generated total net income of $95,633 through the end of 2022. The corporate parent was paid $2,595,522 during that period, which amounted to approximately 96% of income before payment of the fee ($2,595,522.31 / 2,691,155.27 = 96%).

Conclusion

The structure of the management fee complicates the ability to assess the cost to the state of paying the corporate parent to operate the North Home. The corporate parent is due 5% of gross North Home revenues, regardless of the extent to which management oversight services are performed. The services provided by corporate personnel are not tracked and cannot be quantified. The inability to quantify services makes it unclear that additional management services are needed in conjunction with an increase in North Home revenues and subsequent increase in the management fee due to the corporate parent. Linking the payment due to the corporate parent with services received will provide a metric to assess the value of the contracted management of the North Home to the state. The ability to quantify this information will improve transparency between NDVS, the corporate parent, and the management company.

Recommendation

2. Link management fee to services provided.

Revise Reserve Calculation to Reflect True Cash Needs

The Nevada Department of Veterans Services (NDVS) should revise the reserve calculation to reflect the true amount of cash necessary to fund operations. The contract stipulates that the management company may hold a contingency fund equal to the amount needed to operate the North Home for 35 days. These funds are retained to cover "cash needs," as referenced in several instances throughout the contract. Rather than identify the specific cash outflows incurred in operations, the management company calculates the reserve using the total of all income statement expenses, which is larger than the actual cash total expended.

The expenses recorded on the income statement include non-cash accounting adjustments that do not reflect actual cash used in operations. The calculation of the reserve should exclude each of these adjustments. This revision would be consistent with the purpose of the reserve as characterized in the contract and will improve the transparency of financial matters with the management company and allow NDVS to better identify cash available for distribution.

Cash Needed to Operate North Home is Overstated

The purpose of the reserve is to hold enough cash to sustain operations for 35 days due to economic instability or actions by state or federal agencies (i.e., when funds due to the North Home are delayed or go unpaid). A cash balance at or below the reserve requirement amount is held in the North Home bank account, while any excess is to be distributed to NDVS.

Every six months, the management company sends NDVS a distribution analysis showing the North Home's current cash balance against the thirty-five day reserve, which represents the maximum amount of cash that will be retained. The management company calculates the reserve amount by dividing the total of all expenses shown in the income statements for the recent quarter by the number of days in the quarter, then multiplying the result by 35. Exhibit XVI illustrates this calculation.

Exhibit XVI

Management Company's Calculation of 35-day Reserve

$$\frac{\textbf{Total Income Statement Expenses for a Quarter}}{\textbf{Number of days in quarter}} \times 35 = \textbf{Cash Needed for 35 days of operations}$$

Source: DIA analysis of North Home financial records.

The calculation inaccurately implies that every single income statement expense represents a cash payment necessary to operate the North Home. In actuality, the income statement expenses include non-cash accounting adjustments that do not represent an actual outflow of North Home funds. The reserve is overstated by treating these accounting adjustments as a use of cash.

Expenses Include Non-Cash
Accounting Adjustments

The expenses recorded on the income statement include the following non-cash accounting adjustments:

- Depreciation expense – An accounting method of deducting the cost of significant property over an extended period. In the case of the North Home, several computers and pieces of network equipment, along with various other pieces of equipment, are capitalized as depreciable assets. The only time cash is disbursed for these items is when they are initially purchased. Rather than record the full cost as an expense, the cost is allocated into incremental monthly or annual artificial expenses and offset against income over multiple years. There is no corresponding outflow of cash when these incremental expenses are recorded in future periods.

- Bad debt expense – An accounting method of recognizing that cash due from a customer will never be collected. For example, a medical facility could be subject to such a default. Patients ordinarily receive treatment without knowing the cost up front. Once processed, the facility will record the cost of the treatment as revenue and send the patient a bill for payment. If a patient is unable to pay the bill, the facility would record a bad debt expense to recognize the lost revenue. There would be no cash involved with these accounting entries.

Though these accounting adjustments do not represent an outflow of funds, the management company has nonetheless depicted them as cash used, which improperly increases the reserve requirement.

Holdback Fee Not an Operational Expense

The North Home generates revenue from the costs charged to residents, including the room charge and various medical expenses. A large portion of those costs will be covered by the per diem funds sent from the VA to NDVS. The amount of revenue recorded on the income statement by the management company equals the total payer funds due to residents that will be sent to the North Home, which includes the VA per diem. The holdback fee that will be retained from the per diem remitted to the North Home by NDVS is recorded as an expense on the income statement. Recording the fee as an expense is an accounting adjustment made to capture the fact that the per diem funds NDVS remits to the North Home will be less than the total per diem recorded as revenue.

The expense does not represent an actual payment or an otherwise outflow of cash that the North Home incurs as part of operations. By using the unadjusted total of all income statement expenses for the reserve calculation, the management company is misrepresenting the holdback fee as cash used.

Omitting Non-Cash Accounting Adjustments Lowers Reserve

Omitting non-cash accounting adjustments from the total income statement expenses used for the reserve calculation would result in a more precise and transparent amount of the cash used in operations. Exhibit XVII illustrates this revision to the original reserve calculation.

Exhibit XVII

Revised 35-day Reserve Calculation

$$\frac{\text{(Income Statement Expenses for a Quarter Minus: Non-Cash Charges \& Holdback Fee)}}{\text{Number of days in quarter}} \times 35 = \text{Cash Needed for 35 days of operations}$$

Source: DIA revised calculation of cash needed for operations.

The total expenses used in the revised calculation will be decreased by the non-cash accounting adjustments, which would decrease the reserve requirement. Exhibit XVIII displays the effect of this change on the original reserve amounts from each of the previous 6-month distribution reports.

Exhibit XVIII

Effect of Revised 35-day Reserve Calculation

6-Month Ended	Original Reserve	Revised Reserve	Decrease in Reserve
June 2020	$1,120,205.00	$1,080,046.53	$40,158.47
December 2020	$1,213,870.00	$1,172,033.69	$41,836.31
June 2021	$2,655,503.00	$2,639,395.98	$16,107.02
December 2021	$2,739,693.00	$2,700,680.08	$39,012.92
June 2022	$2,780,538.00	$2,712,189.02	$68,348.98
December 2022	$1,608,158.00	$1,568,248.78	$39,909.22

Source: DIA analysis of North Home financial records.
Note: Revised reserve equals original reserve with the holdback fee, depreciation, and bad debt excluded from the total expenses used.

The reserve would be $39,909 less than originally calculated in December 2022 with the revision implemented. Though the decrease in the reserve would not have been enough to result in a distribution NDVS in any of the six-month intervals (each of the adjusted reserves are still higher than the cash balances), the management company's inclusion of income statement expenses that do not represent an outflow of North Home funds is a misrepresentation the amount of cash necessary to sustain operations.

Conclusion

The reserve requirement calculated by the management company does not reflect the true cash used in operations. Per the contract, the reserve serves as a contingency fund to cover cash needs. The management company's calculation inflates the reserve by including non-cash accounting adjustments that do not represent actual cash outflows. The inflated reserve increases funds retained in the bank and decreases funds available for distribution to the NDVS. Revising the reserve calculation to exclude non-cash accounting adjustments and reflect the true cash used in operations will decrease misunderstandings surrounding the six-month distribution process and allow NDVS to better identify cash available for distribution to the state. A greater understanding of the distribution process will enhance transparency with the North Home management company.

Recommendation

3. Revise reserve calculation to reflect true cash needs.

Revise Calculation of Reserve to Formula Outlined in Request for Proposal

The Nevada Department of Veterans Services (NDVS) should revise the calculation of the cash reserve to reflect the formula initially outlined in the Request for Proposal (RFP) section of the contract, which states that the contractor may hold a contingency fund equal to one months per diem. The final contract stated that reserve would equal 35 days of operating expenses, which the management company is calculating using artificial accounting adjustments that do not require cash payments, and the management fee, for which there is no clear correlation to operational needs. Revising the calculation to reflect a reserve requirement based on one month per diem would simplify the reserve and decrease ambiguity in the management company's calculation. A clear and defined reserve calculation will improve the transparency between the management company and NDVS and will allow NDVS to better identify cash available for distribution to the state.

Corporate Parent's Justification Outdated

In the technical proposal (the response to the RFP), the corporate parent requested the cash reserve be revised to reflect either 35 days of operating expenses or 45 days of per diem payments, with 35 days of operating expenses being their preferred alternative. The change was requested based on the assertion that one month per diem would not be enough to fund expenses. The corporate parent emphasized that costs would be high in the first 1-2 years of operation and referred to the short-term nature of the agreement as part of their concern. Operations of the North Home have elapsed well beyond the first two years and the initial two-year term of the contract was amended to six years. The corporate parent's justification to increase the reserve is therefore outdated and no longer applicable to current circumstances.

Misleading Information
Part of Rationale

To support the argument against the use of one month per diem as the reserve, the corporate parent estimated there would be $450,000 in federal funds per month at the end of six months. The corporate parent estimated there would not be enough cash flow for expenses if these funds were paid to NDVS. Exhibit XIX displays the full excerpt of this estimate from the technical proposal section of the management contract.

Exhibit XIX

Management Contract Excerpt

NDVS NEVADA DEPARTMENT OF VETERANS SERVICES

Serving Nevada's Heroes

MANAGEMENT AND OPERATION OF NORTHERN NEVADA STATE VETERANS HOME

Technical Proposal - Formula for Payout of Excess Cash Every Six (6) Months

If there were 20 Service-Connected Veterans in the building receiveing the 100% rates and 60 regular veterans receiving the $107.16 / day federal rate, this would amount to $450,000 in Federal Funds per month being retained at the end of six (6) months. If this were paid to NDVS, there would not be enough cash flow to fund expenses.

Sources: NDVS Website and North Home Management Contract.

This statement was misleading because it implies the reserve is paid to NDVS. The information does not address either the potential cash available at the end of six months or the potential deficiency/excess of cash relative to the reserve. Per the RFP, NDVS would only receive cash balances above the reserve, not the reserve amount itself. All cash below the reserve requirement would be available to fund expenses.

The following is the actual cash balance from the first distribution calculation provided to NDVS in June 2020 and the VA per diem for the period:

- Available cash at June 30, 2020: $446,477
- VA per diem for June 2020: $509,335

If the VA per diem of $509,335 had been treated as the reserve, the entire $446,477 cash balance would be left to fund expenses. NDVS would have only received the cash balance above the reserve. The North Home cash flow would not have been adversely affected as the corporate parent argued in their technical proposal. The rationale to make the change mischaracterized the effect using one month per diem as the reserve.

Management Company's Reserve Calculation Ambiguous

The original intent of the state to use one month per diem as the reserve corresponds to the schedule of per diem payments. There is a correlation between per diem payments remitted monthly and retaining one months' worth of per diem in the reserve, which would be available to fund expenses if the upcoming payment was delayed.

The corporate parent requested that the reserve instead equal 35 days-worth of cash based on expenses but did not clarify how or why they determined 35 should be the number of days covered. Per the technical proposal, 35 days cash on hand is considered the senior living industry best practice. The corporate parent provided no further details or data to support this representation. Moreover, the management company's calculation of the reserve is vague, as total income statement expenses are represented as operational needs, which do not reflect the true cash payments incurred in operations.

Unclear Correlation Between Management Fee and Operational Needs

The fee owed to the corporate parent is recorded on the income statement as an expense and is included as part of the 35-day reserve. This expense represents a cash payment made from the North Home to the corporate parent for services rendered. It is unclear how payment of the management fee is vital to sustaining operations. The corporate parent does not track specific services provided to the North Home and is unable to provide documented evidence of the extent to which oversight services are necessary or provided at the North Home. It is unclear why operations could not be sustained if there were a delay in payment of the management fee or why the fee should otherwise be covered in the reserve calculation.

Depreciable Assets Not Owned by Management Company

Depreciation expense is included in total income statement expenses, which increases the management company's calculation of the reserve. North Home assets giving rise to this expense include computers, computer and network equipment, medical equipment, and various other pieces of equipment. Per the contract, each of these items are owned by the state. The management company does not own the assets that are being depreciated in the North Home financial records.

Per Diem Payments Clear and Defined

Per the contract, the reserve is to equal the amount of cash needed for 35 days of operations. The management company's calculation of the reserve fails to define operational needs. The calculation generalizes the income statement expense total as the cash used for operations and applies that amount to the reserve. The income statement expenses are comprised of multiple components, some of which do not represent an outflow of cash and have no clear correlation to operational needs. The per diem payments, on the other hand, are a single, well-defined component. Using one month per diem provides a clear and concise calculation that would standardize the reserve and limit ambiguity. Reduced ambiguity would facilitate more transparency surrounding use of the cash reserve and the corresponding distribution process.

Distributions Should Have Resulted

The use of one month per diem as the reserve balance would have eventually resulted in two distributions to NDVS, with the first occurring after December 2021. Exhibit XX shows a revised summary of the distribution analyses at each six-month interval using the per diem payment from the same month of each analysis as the reserve.

Exhibit XX

Effect of Revised Formula on Distribution Analyses

6-Month Ended	Cash Balance	Cash Balance adjusted for Distributions	Reserve - Current Month's Per Diem	Cash In Excess of Reserve	Available for Distribution
June 2020	$446,477.00	$446,477.00	$509,334.94	($62,857.94)	$0.00
December 2020	$589,286.00	$589,286.00	$659,081.96	($69,795.96)	$0.00
June 2021	$512,325.00	$512,325.00	$692,964.96	($180,639.96)	$0.00
December 2021	$815,259.00	$815,259.00	$797,729.79	$17,529.21	$17,529.21
June 2022	$275,035.00	$257,505.79	$877,102.20	($619,596.41)	$0.00
December 2022	$1,380,246.00	$1,362,716.79	$971,435.61	$391,281.18	$391,281.18
				Total Benefit to State	$408,810.39

Source: DIA analysis of North Home financial records.
Note: The adjusted cash balance represents the original cash balances adjusted for each preceding theoretical distribution.

There would have been a life-to-date total of $408,810 distributed to NDVS using one month per diem as the reserve as originally outlined in the RFP. At the end of December 2022, there would have been $971,435 left in the reserve to fund expenses.

Conclusion

The corporate parent's justification for using 35 days of operating expenses to calculate the reserve instead of one month per diem is outdated and no longer applicable to the current state of North Home operations. The argument to change from the state's initial desire to use one months per diem included the stance that expenses would be too high for the first two years of operations, though it did not clarify why 35 should be the number of days covered by the reserve. The management company's calculation of the reserve fails to identify operational expenses and generalizes the total income statement expenses as cash used in operations. Income statement expenses include non-cash accounting adjustments and the fee for management oversight services, which does not have a clear correlation to operational needs. The vague nature of the calculation has led to misunderstandings regarding the cash reserve and distribution process. The use of one month per diem would provide a clear and defined calculation of the reserve and would remove the ambiguity in representing the income statement expenses as the cash used in operations. Revising the reserve calculation to reflect the formula originally outlined in the RFP would simplify the reserve and allow NDVS to better recognize cash available for distribution to the state, which would enhance transparency with the North Home management company.

Recommendation

4. Revise calculation of reserve to formula outlined in Request for Proposal.

Present Financial Statements on a Fiscal Year Basis

The Nevada Department of Veterans Services (NDVS) should present the North Home financial statements on a fiscal year basis. The statements are currently presented on a calendar year basis, which deviates from the state's accounting and reporting schedule. Presenting the financial results of the North Home on a fiscal year basis will align with the state's presentation of financial results. The year-to-date and year-end revenues and expenses from the North Home financial statements will correspond with the revenues and expenses that must be reported in the state's accounting system. Matching the period covered by the financial statements with the state's fiscal year will facilitate the ability of NDVS and other state representatives to reconcile and assess necessary North Home financial data. An enhanced ability to assess the North Home financial data will improve the transparency of operations between NDVS and the North Home management company and mitigate the prevalence of financial misunderstandings.

The State of Nevada Operates on a July 1 – June 30 Fiscal Year

Nevada Revised Statute (NRS) 354 defines the state's fiscal year as the 12-month period beginning on the first day of July and ending on the last day of June. This is the period during which the state and each local government manages finances. Budgeting, revenue collections, and expenditure payments are all planned and transacted in adherence with the fiscal year time frame. Additionally, NRS 227 requires the State Controller to submit an Annual Comprehensive Financial Report (ACFR) to the Governor and the Legislature for the preceding fiscal year ended June 30. The objective of the ACFR, in part, is to provide a clear picture of the government as a single, unified entity.

<u>NDVS Financial Transactions</u>
<u>Recorded in DAWN</u>

Financial transactions completed by NDVS are recorded in the Data Warehouse of Nevada (DAWN). This includes all transactions related to operations of the North Home that are the responsibility of NDVS. Per diem payments collected from the VA are recorded as funding. The management fee and the per diem payments remitted to the North Home are recorded as expenditures. NDVS is also responsible for any North Home capital expenses above $2,000, such as a building improvement, which would be recorded in DAWN as an expenditure. When these transactions are integrated into the state's comprehensive financial data, it will include those transactions completed during the period July 1 – June 30. The data reflected on the North Home financial statements do not match this schedule.

North Home Financial Statements Reflect Calendar Year Data

The management company presents the North Home financial statements on a calendar-year basis. Year-to-date data in the reports shows summary totals based on a period starting January 1 and ending December 31. This means that the total year-end data presented in the statements is the sum of the last half of the state's previous fiscal year, and the first half of the state's current fiscal year. The year-to-date data in the report for a given month reflects the aggregated data beginning January 1. Presenting the financial statements for a calendar year creates inevitable variances between the statements and the transactions recorded in DAWN, which complicates the ability to reconcile the two sources of data.

Discrepancies Difficult
to Identify

To assess or reconcile relevant fiscal year financial data of the North Home as currently presented, the calendar-year data must be manually converted into fiscal year totals. The reconciliation can be a cumbersome process and may lead to inaccurate calculations. Exhibit XXI displays the annual total management fees as presented in the financial statements for calendar years 2020 – 2022 as compared to those paid in fiscal years 2020 – 2022 from the state's accounting system.

Exhibit XXI

Management Fees: Calendar Year vs Fiscal Year

	Calender Year Management Fees (Financial Statements)	Fiscal Year Management Fees (DAWN)	Variance
2020	$642,680.77	$471,761.00	$170,919.77
2021	$785,208.37	$508,500.00	$276,708.37
2022	$869,357.44	$706,832.00	$162,525.44

Source: DIA analysis of state accounting records and North Home financial records.

While variances between the fiscal year and calendar year figures are inevitable due to different months covered, it cannot be determined as presented whether the entirety of the variances is the result of the timing difference or a problem with the data. As noted previously, NDVS did not remit the $111,636 management fee owed for December 2021. The month of December 2021 is included in the North Home's 2021 calendar year-end financial statements, while that month fell within the state's 2022 fiscal year. The discrepancy in fees paid could therefore not have been identified by reconciling the fiscal year total to the calendar year total. Exhibit XXII shows a reconciliation of comparable fiscal year data for 2022 when the North Home's individual monthly financial statements are manually converted to a fiscal year total.

Exhibit XXII

Financial Statements Converted to Fiscal Year

Financial Statement Management Fees July 2021 - June 2022	DAWN Management Fees July 2021 - June 2022	Variance
$818,468.00	$706,832.00	$111,636.00

Source: DIA Analysis of state accounting records and the North Home financial records.

Comparing the two sources of data for the same period exposes the discrepancy in management fees paid. The fiscal year figures should match; any resulting variance indicates an issue with the data. Presenting the data for matching time periods identifies discrepancies that warrant further investigation. Presenting the North Home financial statements for the calendar year complicates the ability to identify any underlying issues.

Medicaid Must be Reported for State's Fiscal Year

The management contract stipulates that the management company shall maintain all financial and statistical data required to file federal Medicare and Medicaid cost reports for the state's fiscal year. Exhibit XXIII displays the full excerpt from the contract.

Exhibit XXIII

Management Contract Excerpt

NDVS NEVADA DEPARTMENT OF VETERANS SERVICES

Serving Nevada's Heroes

MANAGEMENT AND OPERATION OF NORTHERN NEVADA STATE VETERANS HOME

Contractor Responsibilities

Contractor shall maintain, on a fiscal year beginning July 1st and ending June 30th basis, all financial and statistical data required for the filing of federal Medicare and Medicaid cost reports, and provide same to NDVS staff within 90 days after the end of each fiscal year. Contractor is responsible for each report including filing and each report must be preapproved by the NDVS Executive Officer or designee.

Sources: NDVS Website, North Home Management Contract.

Various pieces of financial information from the North Home's accounting records must be provided to complete the Medicaid and Medicare cost reports, including the detailed general ledger for the reporting period. The detailed general ledger is comprised of the asset, liability, equity, revenue, and expense data necessary to compile the financial statements. This data is maintained for a calendar year, which does not adhere to the terms of the contract.

Process Noncompliant in
Multiple Respects

The cost reports for the North Home are filed for a one-year period ending June 30 in accordance with the contract. Since the North Home financial records are maintained for a calendar year, it appears that the data must be manually converted to fiscal year totals to meet this requirement. Per the Nevada Medicaid Freestanding Long-Term Care Facility Cost Report Instructions, the period covered by the report is to be a 12-month period conforming to the North Home's fiscal year for financial statements. This reporting basis creates a conflict with the contract requirement, given the corporate parent and management company have opted to present the North Home financial statements on a calendar year basis. By complying with the contract requirement to report data for the state's fiscal year, the cost report instructions are not being followed. Presenting the financial statements for the state's fiscal year would meet the terms of both the contract and the cost report instructions.

Unilateral Decision by Corporate Parent
To Present Calendar Year Statements

The determination to present the North Home financial statements on a calendar year basis was made as part of the corporate parent's operating agreement executed in November 2017. The creation of an operating agreement is a standard part of forming a limited liability company (LLC). The agreement outlines the LLC's financial and functional decisions, including rules, regulations, and provisions. Each member of the LLC signs the document, which binds them to the terms of the agreement. The LLC formed by the operating agreement ultimately became the management company of the North Home.

The corporate parent of the management company is the sole member of the LLC and was the only party to the operating agreement, meaning each decision made in the operating agreement was made exclusively by the corporate parent. Among the terms of the agreement was a proclamation that the company shall keep its accounting records on such basis as determined by the member and with a fiscal year ending December 31. It remains unclear why the corporate parent chose a financial reporting timeframe completely at odds with Nevada statutory guidelines.

Conclusion

Presenting the North Home financial statements for the calendar year does not align with the state's accounting and reporting structure. The State of Nevada operates on a fiscal year beginning July 1 and ending June 30. The state and each local government contained therein compile financial data based on the fiscal year. The financial data of all state entities is combined in the Annual Comprehensive Financial Report, reflecting the operational results of the government as a single, unified entity. The calendar year data presented in the North Home financial statements complicates the ability to reconcile financial data to the data recorded in the state's accounting system. The calendar year data provides limited value to NDVS and other state representatives who must assess data for the state's fiscal year. Presenting the financial statements on a fiscal basis would provide relevant information that aligns with the state's accounting system and facilitate the ability to reconcile North Home data for the fiscal year. This improved ability to assess the data would reduce the potential for financial misunderstanding and enhanced transparency between NDVS and the North Home management company.

Recommendation

5. Present financial statements on a fiscal year basis.

Improve Oversight of the Management Contract

The Nevada Department of Veterans Services (NDVS) should improve oversight of the management contract. Improving oversight of the management contract will increase accountability of the corporate parent and management company, enhance the transparency of operations between NDVS, the corporate parent, and the management company, and ensure the quality of care for residents of the Northern Nevada State Veterans Home (North Home) is provided at a high standard and aligned with objectives.

1-Star and 2-Star CMS Ratings Show Need for Improvement

In December 2008, the Centers for Medicare & Medicaid Services (CMS) enhanced its Nursing Home Compare public reporting site to include a set of quality ratings for each nursing home that participates in Medicare or Medicaid. The ratings take the form of several "star" ratings for each nursing home. The primary goal of this rating system is to provide residents and their families with an easy way to understand assessment of nursing home quality, making meaningful distinctions between high and low performing nursing homes.

Nursing homes that participate in the Medicare and/or Medicaid programs have an onsite recertification (standard) "comprehensive" inspection annually on average. An onsite inspection of the North Home performed on April 25, 2022 disclosed 37 health citations and resulted in a health inspection rating of 1-star. Exhibit XXIV highlights the results of this inspection.

Exhibit XXIV

CMS Health Inspection Result

Northern Nevada State Veterans Home

Health inspections

Print

State inspectors conduct yearly health and safety inspections of nursing homes for compliance with Medicare and Medicaid regulations. A nursing home may also be inspected based on a complaint submitted by a resident (or other individual), or based on a facility's self-reported incident. Nursing homes are also inspected for compliance with infection control and prevention standards.

Learn more about health inspections

Health inspections rating

Much below average

The health inspection star rating is based on each nursing home's current health inspection and 2 prior inspections, as well as findings from the most recent 3 years of complaint inspections and 3 years of infection control inspections.

Most recent health inspection

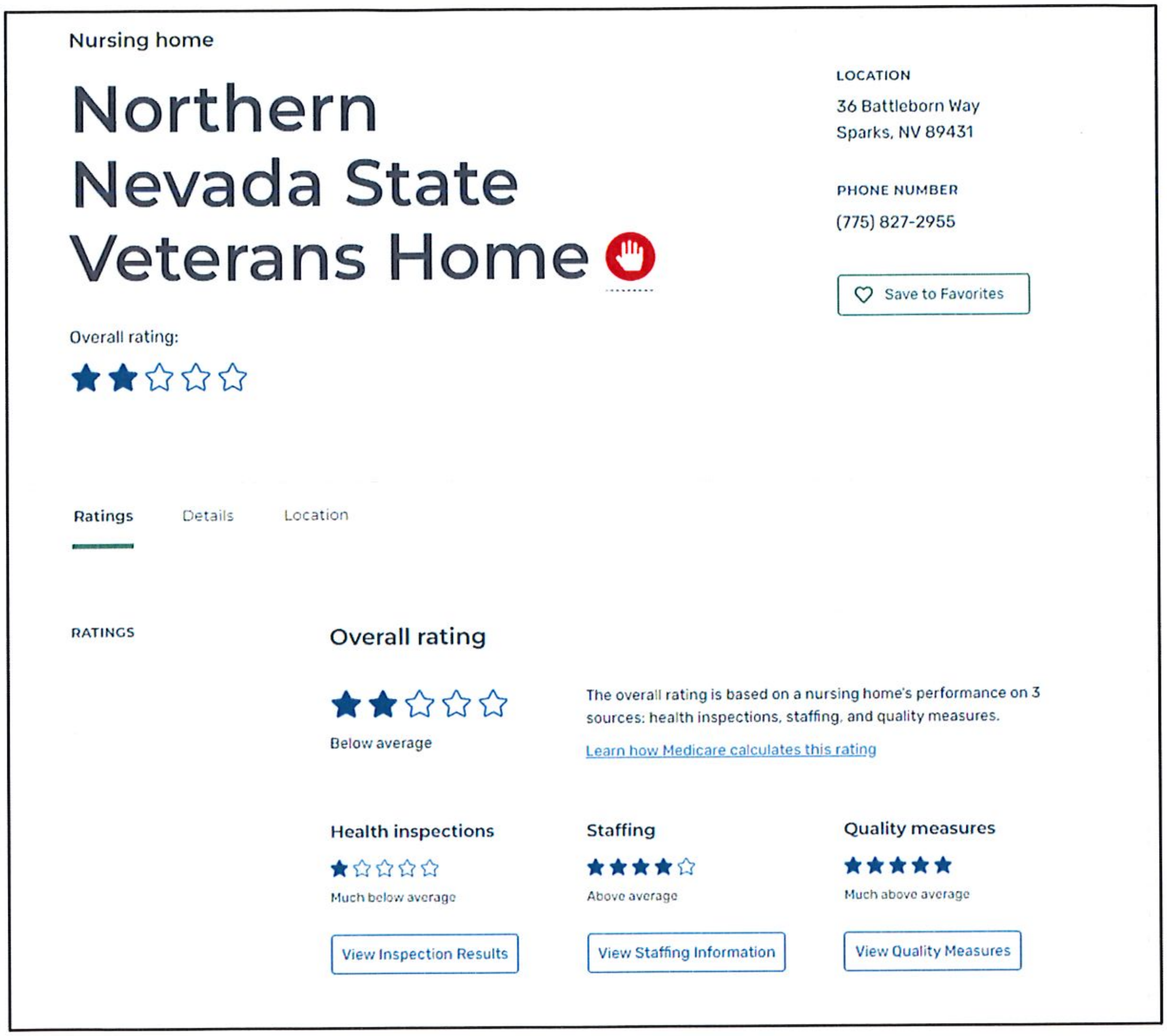
Date of most recent inspection	04/25/2022 View full report
Total number of health citations *Lower is better*	37 Average number of health citations in the U.S.: 8.7 Average number of health citations in Nevada: 13.5

Source: Centers for Medicare and Medicaid Services (CMS).

The health inspection rating serves as the starting point for the overall rating of a facility. When the health inspection rating is one star, the overall rating cannot be upgraded by more than one star based on the ratings of second and third measurement domains – staffing and quality measures. Per CMS, the rationale for this limitation is that the staffing and quality measure domains, which are measures of statistical data, should not significantly outweigh the rating from the actual onsite visits from trained surveyors who may have found very serious quality of care problems. Exhibit XXV summarizes the effect of the health inspection rating on the overall rating of the North Home.

Exhibit XXV

Northern Nevada State Veterans Home CMS Rating



Source: Centers for Medicare and Medicaid Services (CMS).

The exhibit shows a resulting 2-Star overall rating by CMS. While the Staffing and Quality measured domains received above average ratings, the health inspection weighed heavily on the overall rating of the North Home.

The April 2022 health inspection was the third for the North Home since the commencement of operations in 2019. The health inspection summary data suggests that matters have grown progressively worse over each annual inspection. Exhibit XXVI summarizes this data.

Exhibit XXVI

CMS Health Inspection Detail

Health Inspection Summary

Northern Nevada State Veterans Home

36 Battleborn Way
Sparks, NV 89431
(775) 827-2955

Deficiency Category	Inspection Date: 4/25/22 Complaint Reporting Period: 3/1/22 - 2/28/23	Inspection Date: 7/1/21 Complaint Reporting Period: 3/1/21 - 2/28/22	Inspection Date: 7/3/19 Complaint Reporting Period: 3/1/20 - 2/28/21
Freedom from Abuse, Neglect, and Exploitation Deficiencies	2	5	0
Quality of Life and Care Deficiencies	7	2	0
Infection Control Deficiencies	5	1	1
Resident Assessment and Care Planning Deficiencies	3	5	0
Nursing and Physician Services Deficiencies	2	0	0
Resident Rights Deficiencies	3	1	0
Nutrition and Dietary Deficiencies	4	1	0
Pharmacy Service Deficiencies	4	1	0
Environmental Deficiencies	0	0	0
Administration Deficiencies	7	0	0

Detailed result for inspection on 4/25/22

Date of last standard health inspection:	4/25/22 View full report
Date(s) of complaint inspection(s) between 3/1/22 - 2/28/23	4/25/22 View full report
Date(s) of infection control inspection(s) between 3/1/22 - 2/28/23	No infection control inspections
Total number of Health Deficiencies for this nursing home:	37
Average number of Health Deficiencies in Nevada:	13.5
Average number of Health Deficiencies in the United States:	8.7

The number of health deficiencies grew each year. The 37 health deficiencies found during the most recent inspection are substantially higher than both the average number of health deficiencies in Nevada (13.5) and the average number of deficiencies in the United States (8.7).

Follow-Up Inspection Found Previous Deficiencies Corrected

The North Home was subject to a revisit survey in response to the findings of the April 2022 inspection. The revisit survey was performed on July 7, 2022, which found that the pervious deficiencies had been corrected and there was no new noncompliance found. As a result, the inspectors recommended that the North Home retain Medicaid Certification. The ability to retain certification did not affect the North Home's rating, which remains 2-stars based on the CMS ratings methodology, as displayed in the previous exhibits.

Objective of the State to Attain and Maintain a 5-Star Rating

The Request for Proposal (RFP) to solicit management and operations of the new Northern Nevada State Veterans home included a list of goals and objectives intended to be carried out by the State of Nevada. Among those objectives was to attain and maintain a 5-star rating, as highlighted in Exhibit XXVII.

Exhibit XXVII

Management Contract Objective

NDVS NEVADA DEPARTMENT OF VETERANS SERVICES

Serving Nevada's Heroes

MANAGEMENT AND OPERATION OF NORTHERN NEVADA STATE VETERANS HOME

Goals and Objectives

To Attain and Maintain a Five-Star Rating

Source: NDVS Website & Management Contract.

The corporate parent's cover letter for its proposal notes state veterans homes under its management often achieve deficiency-free surveys for both the annual CMS survey and the annual VA Recognition Survey. The detailed technical proposal further states that all its homes are CMS ranked 5-Star and have maintained those rankings for several years. This representation suggested the corporate parent had the experience to meet the state's objective of maintaining a 5-star rating.

Annual VA Survey Disclosed On-Going Concerns

In addition to the onsite health inspection performed by CMS, the North Home is subject to an annual survey administered by the United States Department of Veteran Affairs (VA). The State receives a per diem payment from the VA for providing care to eligible veterans when the VA recognizes the home as a State Veterans Home (SVH). The VA's survey and certification process is required for SVHs that provide nursing home care to continue to receive per diem payments. The goals of the SVH survey policy are to ensure SVHs are performing according to VA regulations and ensure eligible veterans are receiving the best quality of care and safety.

A VA survey of the North Home was conducted in December 2022. The survey found that the North Home was not in compliance with Title 38 Code of Federal Regulations (CFR), Part 51. Exhibit XXVIII displays the introductory initial comment from the survey report.

Exhibit XXVIII

VA Survey – Introductory Comment

VA | U.S. Department of Veterans Affairs

"A VA Annual Survey was conducted from December 13, 2022, through December 16, 2022, at the Northern Nevada State Veterans Home. The survey revealed the facility was not in compliance with Title 38 CFR Part 51 Federal Requirements for State Veterans Homes."

Source: VA Website and December 2022 VA State Veterans Home Survey Report.

The purpose of this part of the CFR is to establish VA's policies, procedures, and standards applicable to the payment of per diem to State homes that provide nursing home care, domiciliary care, or adult day health care to eligible veterans. Exhibit XXIX summarizes the code topics that were found to be out of compliance, along with a brief description of the finding.

Exhibit XXIX

VA Survey – Summary of Findings

Code Topic	Finding Summary
Protection of Resident Funds	Final trust fund disbursement had not occurred upon death within 90-day time limit for 1 of 5 sampled resident accounts.
Staff Treatment of Residents	Facility failed to investigate an allegation of property theft for 1 of 10 residents sampled.
Medication Errors	Licensed Practical Nurse was observed incorrectly administering medication to a resident during survey.
Labeling of Drugs and Biologicals	Expired and improperly stored items were found in 3 of 4 medication storages examined and 1 of 2 treatment carts examined.
Life Safety From Fire	The facility failed to establish policies and protocols for the type of test and intervals of testing for patient care related electrical equipment.
Use of Outside Resources	The facility's management failed to obtain a written agreement with a dental provider for residents as required to assure availablity of dental services.
Credentialing and Privileging	The facility failed to maintain current and complete credentialing and privileging records for 13 of 13 licensed independent practitioners and 4 of 10 sampled licensed nurses.
Proficiency of Nurse aides	The facility failed to maintain verification of completion of nursing competencies for 2 of 5 Certified Nursing Aides' files reviewed.

Source: DIA Analysis of December 2022 VA State Veterans Home Survey Report.

Approximately six months lapsed between the CMS revisit survey and the VA survey. The VA result indicates that corrective action taken by the management company prior to the follow-up inspection was temporary and not implemented for long term results. Without permanent changes to the operational environment, the North Home fell out of compliance within a short period.

CMS Survey Findings
To Result in Fines

The contract includes a 'Quality Based Performance Standard' section that outlines the implementation of fines for findings on the CMS inspections. Each finding of varying levels was to result in the appropriate fine. If the North Home was not in substantial compliance within three months of the inspection, additional fines would be imposed. These fines would be deducted from funds due to the management company on the next monthly invoice. Per NDVS representatives, there have been no fines imposed on the management company during the life of the contract.

Conclusion

The North Home is rated 2 stars by CMS, which does not align with the expectations outlined in the management contract. The number of health inspection findings noted by CMS is well above the national average for nursing homes and for nursing homes in Nevada. These findings indicate a deficient operating environment and suggest a substandard quality of care provided to residents. These deficiencies indicate a need for improved oversight. Improving oversight of the management contract will increase the accountability of the management company, enhance the transparency of operations between NDVS and the management company, and ensure a high standard in the quality of care provided to for residents of the Northern Nevada State Veterans Home.

Recommendation

6. Improve oversight of the management contract.

Exhibit XXX

Audit Benefits

Issue #	**Description**	**Amount**
1	Distribution (Approx. $967,000 biannually)	$ 1,934,000
2	Civilian Days Omitted from Holdback Fee	$ 44,640
3	Operating Deficits Overpaid by NDVS	$ 27,540
4	Revised Reserve using One Month Per Diem	$ 408,810
	Total Benefit to State	$ 2,414,990

Issue 1 reflects anticipated biannual distributions to NDVS going forward. Issue 2 and 3 reflect direct errors in calculations made by the management company. These errors resulted in NDVS remitting $72,180 more than they should have to the North Home. Issue 4 reflects distributions that would have resulted if one month per diem had been used as the reserve.

Appendix A

Scope and Methodology, Background, Acknowledgements

Scope and Methodology

We began the audit in February 2023. In the course of our work, we interviewed members of management from the Nevada Department of Veterans Services (NDVS) to discuss processes inherent to NDVS's operations. We reviewed NDVS records and researched legislative history, state budget manual procedures, applicable Nevada Revised Statutes, Nevada Administrative Code, Nevada State Administrative Manual, governmental generally accepted accounting principles, and other state guidelines. We concluded fieldwork in August 2023

We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

Background

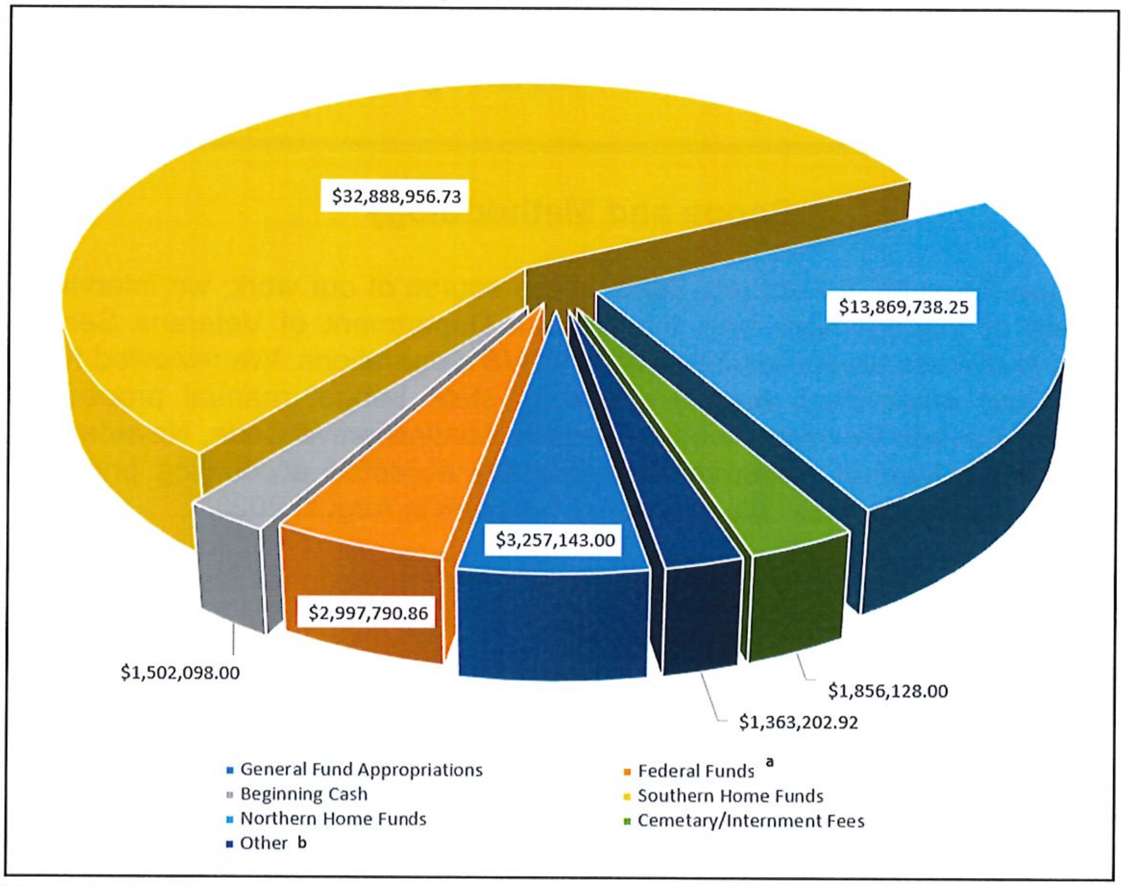
For over 75 years, the Nevada Department of Veterans Services (NDVS) has been dedicated to helping an estimated 250,000 Nevada veterans get the services, benefits, and quality of life they deserve. The men and women of NDVS are honored to address any issue, problem, or concern of Nevada's veterans and serving military – and their families.

In addition to offering benefits, counseling, and assistance, including filing VA claims at no cost, NDVS operates a nationally recognized Southern Nevada State Veterans Home, Boulder City and the Northern Nevada State Veterans Home, Sparks. NDVS also offers burial services and support obtaining military honors at memorial cemeteries located in Northern and Southern Nevada.

Exhibit XXXI summarizes NDVS's funding by source for fiscal year 2023.

Exhibit XXXI

NDVS Funding Sources for Fiscal Year 2023



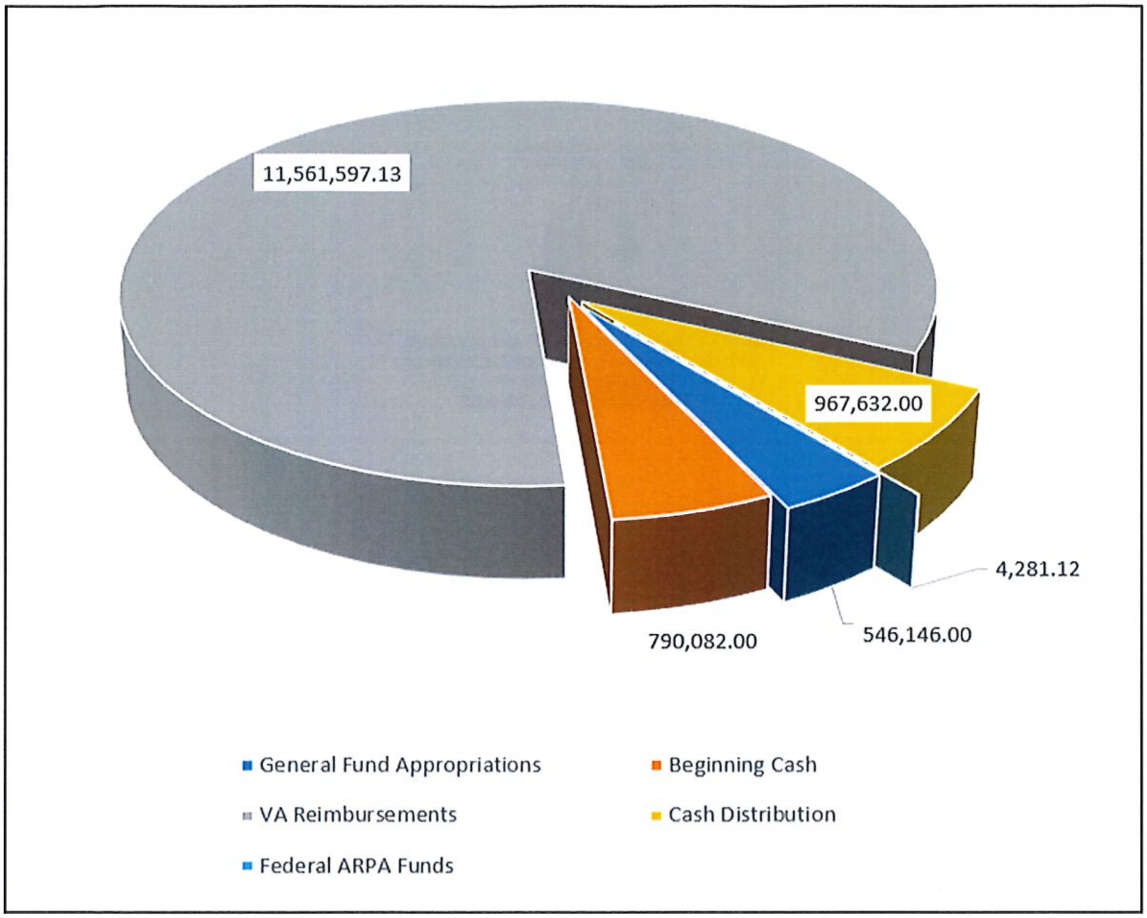
Source: Derived from state accounting records
Note: [a] Federal Funds include Federal Grants, funds for Federal Fatality File Analyst, and Federal ARPA Funds.
Note: [b] Other sources of revenue include Treasurer's Interest Distribution, Gifts and Donations, Excess Property Sales, Fallen Soldier Memorial Program and License Plate Charges.

The Northern Nevada State Veterans Home (North Home) is a skilled nursing care facility overseen by NDVS and managed by Avalon Health Care Management. The North Home is 102,000 square feet with 96 beds and features a host of amenities. Each resident has their own private room, bathroom, and shower. Residents share a den, living room, and kitchen with 15 other residents. The North Home offers short-term rehabilitation, long-term care, and memory care. The first residents were admitted to the North Home in June 2019.

Exhibit XXXII summarizes the budget for the North Home by funding source for fiscal year 2023.

Exhibit XXXII

North Home State Funding Sources for Fiscal Year 2023



Source: Derived from state accounting records

Acknowledgments

We express appreciation to the Department of Veteran Services management and staff, and the Governor's Finance Office, Budget Division for their cooperation and assistance throughout the audit.

Contributors to this report included:

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Executive Branch Auditor

Appendix B

Nevada Department of Veteran Services Response and Implementation Plan

JOE LOMBARDO
Governor

STATE OF NEVADA
NEVADA DEPARTMENT OF VETERANS SERVICES
6630 South McCarran Blvd, Building C, Suite 204
Reno, Nevada 89509
(775) 688-1653 • Fax (775) 688-1656

September 29, 2023

Warren Lowman
Administrator, Division of Internal Audits
Governor's Finance Office, Nevada
wlowman@finance.nv.gov

Re: NDVS Response to NNSVH Audit Recommendations

Dear Administrator Lowman

This letter shall serve as the Department's response to the audit report recommendations as provided in DIA Report No. 24-01.

Timetable for Implementing Audit Recommendations

In consultation with the Nevada Department of Veterans Services (NDVS), the Division of Internal Audits categorized the recommendations contained within this report into two separate implementation time frames (i.e., Category 1 – less than six months; Category 2 – more than six months). NDVS should begin taking steps to implement all recommendations as soon as possible. The target completion dates are incorporated from Appendix B.

Category 1: Recommendations with an anticipated implementation period less than six months.

	Recommendation	Time Frame
1.	Validate veterans home financial data.	4-6 months
2.	Link management fee to services received.	6 months
3.	Revise reserve calculation to reflect true cash needs.	Completed
4.	Revise calculation of reserve to formula outlined in RFP.	5-6 months
5.	Present financial statements on a fiscal year basis.	2 months (January 2024)
6.	Improve oversight of the management contract.	Immediately and ongoing

NDVS and Avalon are committed to working together to improve oversight of the contract. Both entities have experienced significant changes in personnel and are dedicated to building a stronger working relationship and increasing transparency. We are working together to implement and improve upon these six recommendations.

1. Validate veterans home financial data.
NDVS and Avalon are working together to develop more direct access to the Avalon financial system. The State Veterans Home Officer (SVHO) will review patient expenditures and compare them against monthly operating statements. Avalon will provide copies of banking statements and identify the purpose of each deposit, payment, and transfer.

Avalon is working toward a system that will streamline and improve ease of access. Avalon's SNF in Focus system, currently in development, will provide the financials with a drill down feature allowing a user to drill into financials from one source instead of the multiple access points as is currently the case. It can be set up for the user to look at any set of general ledger accounts for any time frame. It is estimated it will take 6 months to fully set up this new system.

In the interim, starting in November of 2023, for the October 2023 financials, Avalon will provide the following items along with the operating statement:

a. The monthly folder of invoices broken down by account (for comparison with the operating statement Account Detail).
b. The monthly bank statements.
c. A download from the NNSVH Transaction record for the month.
d. The running tabulation of outstanding facility loans from Avalon Corporate.
e. The running tabulation of outstanding payments owing to Avalon Corporate from NNSVH.
f. The Monthly Management Fee Invoice will also include a statement line that says: "Avalon understands it shall not withdraw these funds from the NNSVH account prior to the funds being transferred into the NNSVH account from NDVS."

Avalon will provide the SVHO and additional NDVS fiscal personnel access to Point Click Care (PCC), the electronic medical records system used at the NNSVH. PCC access is used to review the revenue side of the financial structure, which provides NDVS with a complete view from admission, through treatment to discharge and billing. NDVS will have access to see billing invoices for Medicare, Medicaid, VA, as well as Private Pay. This is in addition to the access currently provided to invoices through the "Coupa" system. This mechanism will allow NDVS to see all invoices and identify where each invoice is tabulated through the detailed operating statement. This will also allow NDVS to monitor cash collections coming into the NNSVH account, see payments made from the account to vendors as well as payroll, taxes, and other necessary business expenses.

Finally, a series of trainings and collaborations shall be scheduled between the NDVS Executive Officer, SVHO, Avalon CFO and any additional NDVS fiscal personnel identified to allow for directed training and education on all Avalon financial processes and procedures. These meetings and trainings are envisioned to run over a six-month period until transparency is achieved.

2. Link management fee to services received.
As this recommendation did not come with any specific guidance, both parties are currently collaborating on ways to breakdown the services and expense of managing the facility. This will require an amendment to the current contract which is set to end on August 13, 2024.

3. Revise reserve calculation to reflect true cash needs.
The items identified by the audit team, bad debt, VA holdback, and depreciation in expense calculation for 35-day reserve have been removed from the calculation as of August 2023.

4. Revise calculation of reserve to formula outlined in RFP.
NDVS and Avalon are working to further analyze this recommendation. This will require an amendment to the current contract which is set to end on August 13, 2024.

5. Present financial statements on a fiscal year basis.
Avalon will provide a fiscal year synopsis of July 1 through June 30 at the end of each fiscal year. It is anticipated that this will be made available to NDVS in the first week of July 2024. Modification of the monthly operating statements (summary and account detail) to include the running year to date section based on the State Fiscal Year will require some modifications to Avalon's current processes and software designs. Avalon is also researching to make sure that the SNF in Focus system mentioned in the response to Recommendation #1, is able to be searchable by the State Fiscal Year.

6. Improve oversight of the management contract.
The audit has already led to improvement in this area; however, the department and Avalon realize there is more improvement needed. The implementation of recommendation number 1 will give the department the tools needed to significantly improve oversight.

Both NDVS and Avalon are committed to working together to increase transparency and continually improve the lives of the veterans under our care. The SVHO will increase focus on monitoring daily clinical meetings, falls meeting, infection prevention/control, QAPI, and other meetings where the team discusses facility challenges, action plans, goals, and strategies to improve. The SVHO will also have increased access to the financials as previously mentioned. The Deputy Director of Healthcare Services will actively participate in QAPI meetings. This involvement will provide constant oversight and help to ensure the contract provisions are being met.

In addition, the SVHO and the Deputy Director of Healthcare Services are scheduled to attend the National Association of State Veteran Homes meetings where they meet with their counterparts from other states and discuss best practices and changes and trends coming to the industry. Active participation allows the SVHO to gain additional insight into how their role is performed across the nation, leading to increased transparency.

NDVS is also looking into other organizations and training opportunities that may be beneficial for the Deputy Director of Healthcare Services and the SVHO to attend and increase their knowledge and experience. Ongoing education in fiscal oversight, providing quality care, and how it is measured will give the team greater understanding of the where the Northern Nevada State Veterans Home stands in relation to other skilled nursing facilities and other state veterans homes and how to utilize best practices to develop continual improvement plans which benefit the veterans of NNSVH daily.

Thank you and your team for your professionalism and assistance throughout this process. Should you have any questions please feel free to reach out to me.

Sincerely,

Fred Wagar, Director
"Serving Nevada's Heroes"

Appendix C

Timetable for Implementing Audit Recommendations

In consultation with the Nevada Department of Veterans Services (NDVS), the Division of Internal Audits categorized the recommendations contained within this report into two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). NDVS should begin taking steps to implement all recommendations as soon as possible. The target completion dates are incorporated from Appendix B.

Category 1: Recommendations with an anticipated implementation period less than six months.

Recommendation	Time Frame
1. Validate veterans home financial data.	Apr 2024
2. Link management fee to services received.	Apr 2024
3. Revise reserve calculation to reflect true cash needs.	Fully Impl
4. Revise calculation of reserve to formula outlined in RFP.	Apr 2024
5. Present financial statements on a fiscal year basis.	Jan 2024
6. Improve oversight of the management contract.	Apr 2024

The Division of Internal Audits shall evaluate the action taken by NDVS concerning the report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Executive Branch Audit Committee and NDVS.