

STATE OF NEVADA

Performance Audit

Department of Business and Industry
Nevada Transportation Authority

2013



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit on the Nevada Transportation Authority issued on January 7, 2014. Legislative Auditor report # LA14-07.

Background

The Nevada Transportation Authority (NTA) administers and enforces state laws pertaining to passenger transportation, household goods movers, and tow cars. Passenger transportation regulated by the NTA primarily includes limousines, taxicabs outside of Clark County, charter buses, and airport shuttle services. NTA was established in 1997. Prior to this date, the agency was part of the former Public Service Commission. NTA's mission is to administer economic regulation of fully regulated common carriers of passenger and household goods and protect the safety of consumers in intrastate transportation of passengers, household goods, and tow cars.

NTA has offices located in Las Vegas and Reno. In fiscal year 2012 expenditures were about \$2.9 million. NTA has 24 authorized positions, including 3 commissioners appointed by the Governor to 4-year terms. These commissioners serve as administrative hearings officers. The Governor designates one commissioner to serve as the chair or executive officer.

Purpose of Audit

The purpose of this audit was to: (1) evaluate the processes for selecting and conducting operational inspections, and (2) evaluate performance measures, including the reliability of reported results. Our audit focused on the processes used for selecting operational inspections during fiscal years 2008 – 2012, and included a review of inspections completed from January 1, 2010 through June 30, 2012. The audit also focused on performance measures and reported results for fiscal years 2010 – 2012.

Audit Recommendations

This audit report contains three recommendations to strengthen the process of selecting carriers for inspection, and four recommendations to improve the reliability and effectiveness of performance measures.

The Nevada Transportation Authority accepted the seven recommendations.

Recommendation Status

The Authority's 60-day plan for corrective action is due on April 3, 2014. In addition, the six-month report on the status of audit recommendations is due on October 3, 2014.

Nevada Transportation Authority

Department of Business and Industry

Summary

The Nevada Transportation Authority (NTA) can improve its process to select carriers for operational inspections. From our review of inspection reports, we identified 18 carriers that had not been inspected during the past 5 fiscal years, as required. In addition, NTA's selection procedures should be updated to better address staff responsibilities. Furthermore, carriers with a history of safety violations were not always selected for a follow-up inspection, while other carriers without deficiencies were inspected several years in a row.

The NTA can take steps to improve the effectiveness and reliability of its performance measures. The goals for some measures do not accurately reflect performance. For example, one measure addresses completing 80% of industry applications within 6 months. However, we found some applications on average could be processed within a few weeks while others required 8 to 12 months or more to process. In addition, policies and procedures for performance measures do not always clearly define what should be measured.

Key Findings

NTA's selection procedures do not ensure carriers are inspected periodically. For example, procedures require that each carrier receive an operational inspection at least once every 5 years. However, as of fiscal year 2012, we identified 18 of 315 carriers that were not inspected during fiscal years 2008 to 2012, or 5 years. (page 5)

NTA should revise its procedures addressing selecting carriers for inspection. While procedures outline several factors for staff to consider when selecting a carrier for inspection, we found procedures do not clearly identify all staff involved in the selection process, address the expected timeframe to develop a list of carriers for inspection, or define the reasons a carrier may be selected for an inspection. (page 6)

Although a process is in place to correct violations, NTA did not always conduct follow-up inspections of carriers after issuing a citation for safety violations. A follow-up inspection would verify if the carrier remains in compliance. This inspection could involve reviewing all aspects of compliance such as driver qualification and vehicle maintenance files, insurance, tariffs, and checking vehicles. Or, the inspection could focus on specific prior violations. NTA issued citations to 15 carriers during fiscal year 2012 for safety violations identified during an operational inspection. However, NTA did not select 10 of the 15 carriers for a follow-up inspection. Meanwhile carriers with no safety violations were selected 2 or 3 years in a row for an inspection. Of the five carriers subsequently selected for an inspection, three were ordered by the Commissioners as part of the administrative hearing process, and the other two were randomly selected by staff. (page 7)

Several NTA performance measures as currently written and reported do not provide management with the best information. For example, one measure addresses completing 80% of industry applications within 6 months. However, we found some applications on average could be processed within a few weeks while others required 8 to 12 months or more to process. As a result, the measure as currently reported does not provide specific information on the timeliness of key applications. In addition, another measure designed to identify potential financial problems does not include a review of all carriers. (page 11)

The goals for some measures understate performance. For example, one measure addresses the percentage of consumer complaints resolved within 6 months. NTA's goal for this measure is to resolve 90% of all complaints within 6 months. However, we found NTA resolves more than 90% of all complaints in 60 days or less. (page 14)

Although NTA has developed policies and procedures governing performance measures, some revisions are needed. Current procedures do not provide sufficient guidance to ensure performance measure results are consistently reported. As a result, incorrect information was reported in some cases. In addition, procedures need to be revised to define application completion timeframes, safety violations, and financial audits. (page 15)

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Legislative Commission
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This report contains the findings, conclusions, and recommendations from our performance audit of the Nevada Transportation Authority. This audit was conducted pursuant to the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This report includes seven recommendations to improve the inspection process and performance measures. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

Paul V. Townsend, CPA
Legislative Auditor

September 5, 2013
Carson City, Nevada

Nevada Transportation Authority Table of Contents

Introduction	1
Background.....	1
Scope and Objectives	3
Process of Selecting Carriers for Inspection Needs Strengthening	5
Selection Procedures Do Not Ensure All Carriers Are Inspected.....	5
Carriers With Safety Violations Not Selected For Follow-up Inspection	7
Performance Measures Can Be Improved	11
Reported Results Do Not Accurately Reflect Performance.....	11
Policies and Procedures Governing Performance Measures Need Revision	15
Appendices	
A. Audit Methodology.....	17
B. Response From the Nevada Transportation Authority	20

Introduction

Background

The Nevada Transportation Authority (NTA) administers and enforces state laws pertaining to passenger transportation, household goods movers, and tow cars. Passenger transportation regulated by the NTA primarily includes limousines, taxicabs outside of Clark County,¹ charter buses, and airport shuttle services. NTA was established in 1997. Prior to this date, the agency was part of the former Public Service Commission. NTA's mission is to administer economic regulation of fully regulated common carriers of passenger and household goods and protect the safety of consumers in intrastate transportation of passengers, household goods, and tow cars.

NTA has offices located in Las Vegas and Reno. In fiscal year 2012 expenditures were about \$2.9 million. NTA has 24 authorized positions, including 3 commissioners appointed by the Governor to 4-year terms. These commissioners serve as administrative hearings officers. The Governor designates one commissioner to serve as the chair or executive officer, currently located in the Reno office. The Reno office also includes the deputy commissioner, one administrative staff, and three enforcement staff. The other two commissioners are located in the Las Vegas office along with eight administrative staff and eight enforcement staff. NTA personnel are organized into five units assigned with the following general areas of responsibility:

- **Administration** – NTA budgeting and accounting, records retention, facilitating public information requests, legal dockets, contracts, personnel, and maintenance of the agency database.
- **Applications** – Management of applications including, but not limited to: new motor carriers seeking operating authority, expansion of operating authority, tariff modifications, financial analysis, and review of certificated motor carriers.

¹ The Taxicab Authority regulates taxicabs in Clark County.

- **Compliance/Audit** – Assisting carriers in obtaining compliance with statutory and regulatory provisions, background investigations on certain applicants seeking operating authority, operational inspections, and new vehicle cursory inspections.
- **Compliance/Enforcement** – Targeting and citing non-certificated motor carriers, enforcement of state and federal motor carrier statutes and regulations, assisting carriers in obtaining compliance with statutory and regulatory provisions, risk-based operational inspections, and new vehicle cursory inspections.
- **Administrative Hearings/Judicial** – Administrative law hearings conducted by one of the NTA commissioners concerning applications, vehicle impounds, and citations. The commissioners are also responsible for facilitating public workshops, conducting regulation adoption hearings, the hearing of appeals of decisions rendered by the Nevada Taxicab Authority, as well as conducting any other types of public meetings including general sessions of NTA.

NTA issues a Certificate of Public Convenience and Necessity (CPCN) to carriers authorizing them to operate in Nevada. Pursuant to NRS 706.166, NTA is responsible for the regulation of fully regulated motor carriers as well as partially regulated carriers. Exhibit 1 shows the types of carriers and NTA’s regulatory authority.

**Types of Carriers and
NTA’s Regulatory Authority**

Exhibit 1

Fully Regulated Carriers	Partially Regulated Carriers
Airport Transfer Service	Charter Bus
Contract Carrier ²	Consent & Non-Consent Tow Car
Household Goods Mover	
Limousine	
Non-Emergency Medical Transfer Service	
Scenic Tour	
Special Service ³	
Taxicab (outside of Clark County)	

Sources: NRS 706.072, 706.445, and NTA.

² A person or operator engaged in transportation of passengers or household goods for compensation pursuant to contracts with one person or a limited number of persons.

³ Transportation of persons for a special event between definite points of origin and destination at a per capita rate.

Fully regulated carriers must adhere to more stringent financial requirements and a more thorough application process. Further, NTA has authority over the rates, routes, and services of fully regulated carriers. For partially regulated carriers, NTA oversight is limited to motor carrier safety, insurance requirements, and approval of rates for non-consensual tow cars. NTA also issues permits for employer vanpools and the storage of household goods. Exhibit 2 shows the number of carriers by type of carrier.

**Number of Carriers
As of June 2013**

Exhibit 2

Carrier or Type	Number of Carriers
Airport Transfer Service	19
Charter Bus	75
Consent & Non-Consent Tow Car	97
Consent Only Tow	48
Contract Carrier Permit	13
Employer Vanpool Permit	18
Household Goods Mover	43
Limousine	45
Non-Emergency Medical Transfer	6
Scenic Tours	16
Special Service	22
Taxicab	10
Warehouse Permit	23
Totals	435

Source: NTA records.

Scope and Objectives

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218G.010 to 218G.350. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

Our audit of the Nevada Transportation Authority focused on the processes used for selecting operational inspections during fiscal years 2008 – 2012, and included a review of inspections

completed from January 1, 2010 through June 30, 2012. In addition, we reviewed performance measures and reported results for fiscal years 2010 – 2012. Our audit objectives were to evaluate:

- The processes for selecting and conducting operational inspections.
- Performance measures, including the reliability of reported results.

Process of Selecting Carriers for Inspection Needs Strengthening

The Nevada Transportation Authority (NTA) can improve its process to select carriers⁴ for operational inspections. Specifically, NTA should ensure inspections are performed for each carrier at least once every 5 years. Of 315 carriers as of fiscal year 2012, we identified 18 that had not been inspected during the past 5 fiscal years. In addition, NTA's selection procedures should be updated to better address staff responsibilities. Furthermore, carriers with a history of safety violations were not always selected for a follow-up inspection, while other carriers without deficiencies were inspected 2 and sometimes 3 years in a row.

Selection Procedures Do Not Ensure All Carriers Are Inspected

NTA's selection procedures do not ensure carriers are inspected periodically. For example, procedures require that each carrier receive an operational inspection at least once every 5 years. However, we identified 18 carriers that were not inspected during fiscal years 2008 to 2012, or 5 years, as shown in Exhibit 3.

Carriers Not Inspected During Fiscal Years 2008 to 2012		Exhibit 3
Last Inspection	Number of Carriers	
Carrier has not been inspected	12	
Carrier went more than 5 years without an inspection	6	
Total	18	

Source: Auditor's review of NTA records.

We identified 12 carriers that had not been inspected. We also found 6 carriers received an inspection; however, these carriers

⁴ Carriers refer to any person or operator who provides passenger transportation, household goods movers, and tow cars, listed in Exhibit 2 on page 3.

went more than 5 years between inspections. The 18 carriers included:

- 8 tow carriers
- 5 charter bus carriers
- 4 household good moving carriers
- 1 limousine carrier

Although NTA's policy requires that each carrier receive an operational inspection at least once every 5 years, the current selection process does not identify carriers without a previous inspection. NTA's current methods to select a carrier for inspection include: (1) random selection, (2) risk-based, (3) restructure (sale or transfer), and (4) voluntary. In addition to these four selection methods, NTA also selects carriers when their last inspection occurred 5 years ago⁵. Nonetheless, procedures do not address carriers that have not received a prior operational inspection.

The purpose of an operational inspection is to provide NTA with assurance carriers are in compliance with applicable laws, regulations, and policies. An inspection of a carrier's operations may include reviewing driver qualification files and vehicle maintenance files, verifying insurance, spot-checking vehicles, and comparing carrier invoices to their approved tariff. Without periodic inspections, there is an increased risk carriers with violations will go undetected.

Inspection Procedures Need Revision

NTA should revise its inspection procedures. The primary purpose of procedures is to identify the staff responsibilities and daily tasks regarding operational inspections of carriers. While procedures outline several factors for staff to consider when selecting a carrier for inspection, we found procedures do not:

- Clearly identify all staff involved in the selection process.
- Indicate when the annual inspection list should be developed.
- Define the reasons a carrier may be selected for an inspection based on a restructure.

⁵ When NTA developed the operational inspection list for 2012, a report was generated to identify carriers last inspected during 2007, or 5 years ago.

- Identify the current performance goal to inspect 34% of certificated carriers each fiscal year.

Complete procedures are important to ensure duties and functions are carried out properly and timely. Incomplete procedures increase the risk staff will not select a carrier for inspection. In addition, procedures provide a resource for current employees and a training tool for new employees.

Carriers With Safety Violations Not Selected For Follow-up Inspection

Although a process is in place to correct violations, NTA did not always conduct follow-up inspections of carriers after issuing a citation for safety violations. A follow-up inspection would verify if the carrier remains in compliance. This inspection could involve reviewing all aspects of compliance such as driver qualification and vehicle maintenance files, insurance, tariffs, and checking vehicles. Or, the inspection could focus on specific prior violations. NTA issued citations to 15 carriers during fiscal year 2012 for safety violations identified during an operational inspection. However, NTA did not select 10 of the 15 carriers for a follow-up inspection. Meanwhile carriers with no safety violations were selected 2 or 3 years in a row for an inspection. Of the five carriers subsequently selected for an inspection, three were ordered by the Commissioners as part of the administrative hearing process, and the other two were randomly selected by staff.

The three follow-up inspections ordered by the Commissioners resulted from severe safety violations. However, the 10 carriers with safety violations severe enough for NTA to issue a citation were not selected for a follow-up inspection. Safety violations identified during operational inspections for the 10 carriers are shown in Exhibit 4.

**Safety Violations Found
During Operational Inspections
Fiscal Year 2012**

Exhibit 4

Safety Violations
Carriers were issued a citation for one or more of the following safety violations during an inspection: <ul style="list-style-type: none">• Drivers drove before pre-employment drug testing.• Failure to have certification of medical examination.• No annual inquiry and review of DMV driving record.• No certification of violations (furnished by the driver).• No inquiry of the driver(s) prior drug and alcohol test record.• Failure to have vehicles inspected by the NTA prior to putting them into service.• No random drug testing.• No record of road test.

Source: Auditor's review of operational inspection reports.

Exhibit 4 outlines the safety violations severe enough that the carrier was issued a citation. For example, 1 of the 10 carriers not selected for a follow-up inspection was licensed to provide charter bus transportation, but failed to have 10 buses inspected by the NTA prior to putting them into service, as required by state regulation. In addition, 4 of the 10 carriers violated the requirement to have their drivers submit to pre-employment or random drug testing. According to agency records, violations were corrected subsequent to NTA's inspection. However, conducting a follow-up inspection will provide NTA greater assurance the carrier does not repeat a similar violation and help ensure the carrier stays in compliance.

When the Commissioners order a follow-up inspection, it is referred to as a risk-based inspection. In addition, based upon prior violations, staff may select carriers using the risk-based approach. According to policy, several factors are considered when a carrier is selected for inspection using a risk-based approach, including:

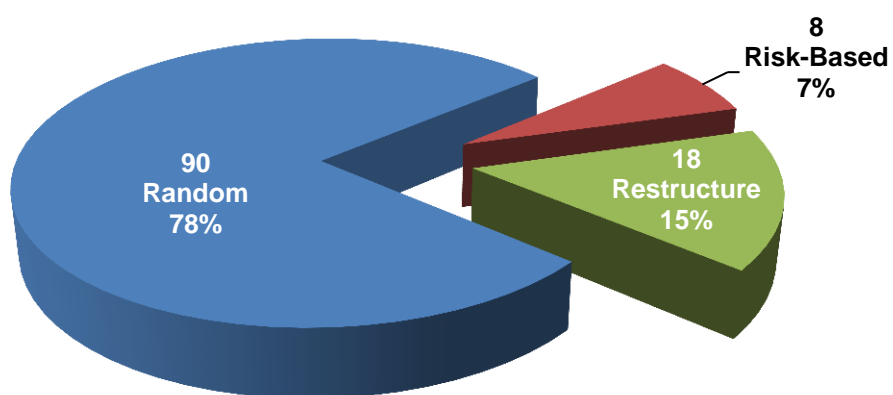
- Complaints against the carriers.
- Deficiencies found during stops of carrier vehicles.

- Previous operational inspection findings.

Although NTA selects some carriers on a risk-basis, the agency relies primarily upon random selection to identify carriers for inspection. Exhibit 5 shows NTA conducted 116 operational inspections during fiscal year 2012; 90 selected randomly, 18 based on restructure, and 8 risk-based.

Reasons for Inspection Fiscal Year 2012

Exhibit 5



Source: NTA inspection records.

Requiring a follow-up inspection of carriers with prior safety violations would not significantly change NTA's selection methodology. Instead, a follow-up inspection of all carriers with safety violations would slightly increase the number of risk-based inspections, while slightly decreasing the total number randomly selected.

Conducting follow-up inspections helps ensure carriers understand and comply with safety requirements. Furthermore, the agency will be able to evaluate the carrier's compliance with applicable laws, regulations, and procedures.

Recommendations

1. Ensure all carriers are selected for an operational inspection at least once every 5 years.

2. Update inspection procedures to reflect current practices and include future revisions made to the selection process.
3. Require a follow-up inspection on carriers issued a citation during the prior inspection.

Performance Measures Can Be Improved

The NTA can take steps to improve the effectiveness and reliability of its performance measures. The goals for some measures do not accurately reflect performance. For example, one measure addresses completing 80% of industry applications within 6 months. However, we found some applications on average could be processed within a few weeks while others required 8 to 12 months or more to process. As a result, the measure as currently reported does not provide specific information on the timeliness of key applications. In addition, policies and procedures for performance measures do not always clearly define what should be measured.

Reported Results Do Not Accurately Reflect Performance

Several NTA performance measures as currently written and reported do not provide management with the best information. For example, one measure combines the completion time for all industry applications, when the actual time required can vary significantly based on the type of application.⁶ Another measure designed to identify potential financial problems does not include a review of all carriers. In addition, the goals for two other measures understate performance.

Measure Does Not Effectively Assess the Timeliness to Complete Key Industry Applications

One measure addresses the percentage of industry applications completed within 6 months. As currently reported, all applications, regardless of the time needed to complete, are combined into this measure. As a result, reported results do not provide NTA management with the best information to monitor the timeliness of key applications. Exhibit 6 shows 10 different types of industry

⁶ Carriers submit applications to NTA for approval to operate within Nevada, expand areas served or vehicles in operation, and to change tariffs (rates charged).

applications completed during fiscal year 2012, and how timely these applications were completed.

**Applications Processing Timeliness
Fiscal Year 2012**

Exhibit 6

Applications Completed						
Type of Application	Number of Applications	180 Days or Under	Over 180 Days	Percentage 180 Days or Under	Average Days to Complete	
1 Expansion of Authority	11	1	10	9%	350	
2 Sale and Transfer	18	9	9	50%	295	
3 Application for CPCN	38	25	13	66%	242	
4 Change Domicile	36	30	6	83%	101	
5 Tariff Modifications	58	52	6	90%	64	
6 Exemption Request	16	15	1	94%	52	
7 Deviate from Approved Tariff	35	33	2	94%	23	
8 Deviate from Regulations	23	23	0	100%	18	
9 Voluntary Cancel CPCN	12	12	0	100%	29	
10 Petition to Change Name	4	4	0	100%	105	
Totals	251	204	47			

Source: Auditor analysis of selected fiscal year 2012 closed applications.

Exhibit 6 shows applications such as expansion of authority, sale and transfer, and applications for authority to operate (CPCN) on average take longer than 180 days, or 6 months to complete. On average these applications took 242 to 350 days or about 8 to 12 months to complete, and require more extensive review of a carrier's operations and finances. Other applications, including exemption requests, deviations from tariffs and regulations, and voluntary cancelation of a CPCN take considerably less time to complete.

NTA staff indicated applications for a CPCN, expansion of authority, sale and transfer, and tariff modifications are the most important applications to complete timely. In addition, these applications have the most impact on carriers operating profitably. NTA should revise this measure to provide more specific information of the time needed to complete key applications.

Methods to Assess Carriers' Financial Status Not Adequate

Another measure does not provide NTA with adequate information regarding a carrier's financial status. This measure addresses the percentage of fully regulated carriers receiving a financial audit each year, with a goal of 25% annually. For fiscal year 2012, NTA reported completing audits on 51 of 125 fully regulated carriers or 41%. Staff indicated this measure is designed to identify fully regulated carriers with financial equity issues.

The measure as currently written and reported contains misconceptions and weaknesses. First, the work done is not an audit, it is a financial review. Second, NTA is counting work normally done as part of the application process as an audit. Third, numbers reported do not provide information on all fully regulated carriers.

The 51 audits completed were generated by reviewing annual reports submitted by carriers and through certain applications filed. Exhibit 7 shows, for fiscal year 2012, the number and percentage of audits reported on fully regulated carriers.

Number and Percentage of Financial Audits Completed by Audit Type Fiscal Year 2012 Exhibit 7

Audit Description or Type	Number of Audits Completed by Type	Percentage of Audits Completed by Type
Annual Report Review	12	24%
Tariff Modifications	16	31%
Various Applications *	23	45%
Totals	51	100%

Source: Auditor analysis of fiscal year 2012 financial audits completed of fully regulated carriers.

* Includes applications for new CPCN, expansion of authority, and sale and transfer.

Twelve (24%) financial audits resulted when, based upon reviewing carriers' annual reports, staff requested additional information from the carrier. The remaining 39 (76%) resulted from various applications filed by carriers including tariff modifications, new authority, expansion of authority, and sale and transfer. Although NTA counts these 39 applications as financial

audits, staff do not perform additional work beyond what is already required to complete the application.

Better methods are available to assess the financial equity of all fully regulated carriers. NAC 706.149 requires

“...every fully regulated carrier shall maintain an investment of not less than 20 percent equity capital in his operations and include proof that he meets this requirement in his annual report filed with the Authority.”

Currently, staff review annual reports submitted by the 125 fully regulated carriers to assess financial equity. Identifying from these annual reports, through a performance measure, the number or percentage of fully regulated carriers with equity below 20% would provide management with better information than currently reported.

Goals Understate Performance

The goals for two measures addressing consumer complaints and public information requests understate performance. For example, one measure addresses the percentage of consumer complaints resolved within 6 months. NTA’s goal for this measure is to resolve 90% of all complaints within 6 months. However, we found NTA resolves most complaints in 60 days or less. Exhibit 8 shows the number of complaints resolved, percentage resolved in 60 days or less, and average number of days to resolve complaints for fiscal years 2010, 2011, and 2012.

Complaint Resolution Timelines **Exhibit 8**
Fiscal Years 2010 – 2012

Fiscal Year	Number of Complaints Resolved	Percentage of Complaints Resolved in 60 Days or Less	Average Number of Days to Resolve Complaints
2010	187	90%	28
2011	151	93%	29
2012	191	92%	27

Source: Auditor analysis of NTA complaint records.

Over the last three fiscal years NTA resolved 90% or more of complaints in 60 days or less. The current goal of resolving 90%

of complaints within 6 months significantly understates how timely complaints are resolved. Adjusting the goal to 60 days or less would more accurately reflect the work done.

Policies and Procedures Governing Performance Measures Need Revision

Although NTA has developed policies and procedures governing performance measures, some revisions are needed. Current procedures do not provide sufficient guidance to ensure performance measure results are consistently reported. As a result, incorrect information was reported in some cases. In addition, procedures need to be revised to define application completion timeframes, safety violations, and financial audits.

One performance measure addresses the percentage of industry applications successfully completed within 6 months. However, we found non-application items such as cease and desist orders, orders to show cause, and formal complaints to the commissioners counted as applications. Therefore, the percentage of applications completed timely and reported for this measure was overstated. NTA needs to clearly identify what items should be counted as industry applications when computing this performance measure. In addition, NTA should define in writing the start and end dates that should be used to compute whether applications were completed within 6 months.

NTA needs to clarify what information should be reported for another measure: percent of vehicles staff ensured received a safety inspection pursuant to federal regulations. The measure as written and reported addresses all vehicles, operated by both fully and partially regulated carriers, subject to NTA oversight (about 315 carriers). However, procedures also indicate the current standard is to ensure that 100% of all vehicles operated by only fully regulated companies (about 125 carriers) received a safety inspection pursuant to federal regulations. NTA should revise procedures to eliminate this discrepancy.

In addition, procedures governing other performance measures need revision. We found current procedures do not clearly define what constitutes a safety violation or how specific industry applications and annual reports were selected as financial audits.

Recommendations

4. Revise performance measures to address processing timeliness for key applications.
5. Revise performance measures to identify carriers with equity issues.
6. Modify performance goals to more accurately reflect performance.
7. Revise policies and procedures to clearly identify what information should be used to calculate performance measures.

Appendix A

Audit Methodology

To gain an understanding of the Nevada Transportation Authority (NTA), we interviewed staff and reviewed statutes, regulations, state administrative procedures, and policies and procedures significant to NTA's operations. We reviewed financial information, budgets, legislative committee minutes, and other information describing activities of NTA. In addition, we accompanied staff while performing an operational inspection and during a patrol to observe carriers. Also, we attended various hearings. Furthermore, we documented and assessed internal controls over operational inspections and performance measures.

To evaluate NTA's selection of carriers for an operational inspection, we first determined if NTA complied with its policy to inspect each carrier at least once every 5 years. We obtained a listing of all carriers inspected during fiscal years 2008 through 2012, or 5 years. We compared our list of carriers inspected with carrier files, spreadsheets, and NTA's database to identify which carriers were in operation and not selected for inspection during fiscal years 2008 to 2012, or 5 years. As of August 2011, there were 315 carriers. For each carrier, we determined if an operational inspection was completed and documented dates when one occurred. We verified inspection reports were accurate and complete by comparing information from spreadsheets to the actual inspection reports. Next, we analyzed operational inspections completed during fiscal years 2008 to 2012 to verify the reasons carriers were selected for inspection and to identify carriers randomly selected for an inspection during back-to-back years. We judgmentally selected 40 carriers to determine if safety violations were identified during the back-to-back inspections. We also reviewed 15 carrier files and citation reports of carriers with safety violations during fiscal year 2012 to verify the type of violation and if the carrier was selected for a follow-up inspection.

Finally, we reviewed policies and procedures for staff responsibilities regarding inspections.

To evaluate performance measures, we obtained copies of results and the methodology used to calculate results for fiscal years 2010, 2011, and 2012. We also obtained copies of policies and procedures governing performance measures. We compared each performance measure as written with policies and procedures, methodology, information reported, and supporting documentation. Using supporting documentation we recalculated each measure to verify that reported results were accurate. We then performed additional steps for some measures. For one performance measure we obtained a listing of all complaints filed during fiscal years 2010, 2011, and 2012. For each complaint we identified the number of days to resolve the complaint, the number and percentage resolved in 60 days or less, and the average number of days to resolve each complaint. We then reviewed complaint reports to verify the accuracy of information compiled. For another performance measure we obtained a copy of all dockets closed (applications completed) during fiscal year 2012. We then sorted completed applications by month and type and identified for each application the number of days to complete, the number and percentage completed within 6 months, and average days to complete. We then compared our listing of completed applications with monthly listings for fiscal year 2012 completed by NTA to support reported results for this measure, and identified errors and discrepancies between the two lists. We discussed performance measures, policies and procedures, methodology, reported results, and discrepancies with NTA staff.

Our audit work was conducted from November 2012 to June 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Chairman of the Nevada Transportation Authority. On August 21, 2013, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B which begins on page 20.

Contributors to this report included:

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Appendix B

Response From the Nevada Transportation Authority

BRIAN SANDOVAL
Governor

STATE OF NEVADA



DEPARTMENT OF BUSINESS AND INDUSTRY
NEVADA TRANSPORTATION AUTHORITY

BRUCE BRESLOW
Director B&I

ANDREW J. MACKAY
Chairman

MONICA B METZ
Commissioner

GEORGE ASSAD
Commissioner

September 3, 2013

Paul V. Townsend, CPA
Legislative Auditor
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401 So. Carson Street
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Dear Mr. Townsend:

I have reviewed the preliminary audit report presented to us during our meeting with you on August 21, 2013. Attached to this letter is the Nevada Transportation Authority's written statement of explanation to the audit report.

The Nevada Transportation Authority accepts all seven recommendations included in the audit report.

We wish to thank the Legislative Counsel Bureau Audit Division for the extensive time and effort devoted to performing an audit of this agency and thoroughness of its review. We also appreciate the expertise and professionalism of the audit team. It has truly been a pleasure working with your staff on this very important endeavor. We are grateful for the operational adjustments that are being implemented as a result of the audit that will improve our effectiveness in carrying out our mission and serving both the public and the transportation industries we oversee.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew MacKay", written over a horizontal line.

Andrew MacKay
Chairman

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**NEVADA TRANSPORTATION AUTHORITY
STATEMENT OF EXPLANATION OF AUDIT REPORT
September 3, 2013**

RECOMMENDATION 1.

Ensure all carriers are selected for an operational inspection at least once every 5 years.

RESPONSE:

The NTA accepts this recommendation and has implemented new selection methodologies.

The NTA is very appreciative that the audit identified several carriers who had not received an operational inspection for more than 5 years. Upon further investigation with NTA staff it was determined that the database query being used to select carriers who had not been inspected within the past five years was failing to pick up new companies that had not yet received an operational inspection following the inspections performed at the time they became certificated or permitted. Corrective measures have been implemented that ensure all new carriers that have not been re-inspected are now included in the query results. All of the subject carriers identified by the audit have received an operational inspection. Additionally, NTA initiated a new policy to perform an operational inspection of each new carrier following its first full year in operation.

RECOMMENDATION 2.

Update inspection procedures to reflect current practices and include future revisions made to the selection process.

RESPONSE:

The NTA accepts this recommendation and will revise agency written procedures related to selection of carriers for operational inspections.

The NTA appreciates the audit recommendation that the process for selecting carriers for random operational inspections should include additional details regarding the selection process. The written policy and procedure for operational inspections will be revised to include a more detailed description of this process and other revisions resulting from the audit recommendations.

RECOMMENDATION 3.

Require a follow-up inspection on carriers issued a citation during the prior inspection.

RESPONSE:

The NTA accepts this recommendation and has implemented new procedures to perform follow-up inspections on carriers issued a citation for a safety violation during the preceding inspection.

The NTA is appreciative of this recommendation as a means by which the agency can better focus operational inspection resources in areas of higher risk. Although under its procedures, follow-up inspections were performed to ensure all safety violations were corrected immediately following the initial inspection that resulted in a citation, subsequent inspections were conducted in accordance with agency procedures for random selection of carriers for operational inspections. NTA agrees that additional follow-up inspections of carriers cited for safety violations is an improvement by targeting more operational inspections in areas of higher risk.

RECOMMENDATION 4.

Revise performance measures to address processing timeliness for key applications.

RESPONSE:

The NTA accepts this recommendation and will implement revised performance measures effective July 1, 2013.

The NTA believes this recommendation will provide better information regarding the timeframes for processing applications for new carrier service as well as timeframes for processing other types of applications by not including all applications in one performance measure.

RECOMMENDATION 5.

Revise performance measures to identify carriers with equity issues.

RESPONSE:

The NTA accepts this recommendation and will implement revised performance measures effective July 1, 2013.

Having carriers maintain required equity levels is an important matter that directly relates to public safety and is required by Nevada law. NTA staff review all applications for licensure and annual reports of all existing carriers to ensure sufficient equity. If the review of a carrier's annual financial report indicates insufficient equity, NTA ensures that equity adjustments are

made in order for the carrier to continue operating. A performance measure dedicated to this important function of the agency will be implemented.

RECOMMENDATION 6.

Modify performance goals to more accurately reflect performance.

The NTA accepts this recommendation and has implemented revised performance measures effective July 1, 2013.

NTA agrees with the audit report that outdated performance measures related to the time for completion of complaint investigations were not reflective of the actual average time spent investigation complaints resulting in an inaccurate portrayal of the actual investigative timeframes. This performance measure has been revised removing the six months timeframe to 60 days to better reflect the actual time spent on the majority of complaint investigations.

RECOMMENDATION 7.

Revise policies and procedures to clearly identify what information should be used to calculate performance measures.

RESPONSE:

The NTA accepts this recommendation and will revise policies and procedures to eliminate an existing discrepancy so as to accurately reflect the current standard.

NTA staff ensure that all vehicles operated by regulated carriers receive federally required safety inspections as is stated in NTA's performance measures. The agencies written policies and procedures state this function only applies to fully regulated carriers. The written policies and procedures will be corrected.

Nevada Transportation Authority's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Ensure all carriers are selected for an operational inspection at least once every 5 years.....	<u> X </u>	<u> </u>
2. Update inspection procedures to reflect current practices and include future revisions made to the selection process.	<u> X </u>	<u> </u>
3. Require a follow-up inspection on carriers issued a citation during the prior inspection	<u> X </u>	<u> </u>
4. Revise performance measures to address processing timeliness for key applications	<u> X </u>	<u> </u>
5. Revise performance measures to identify carriers with equity issues.....	<u> X </u>	<u> </u>
6. Modify performance goals to more accurately reflect performance.	<u> X </u>	<u> </u>
7. Revise policies and procedures to clearly identify what information should be used to calculate performance measures	<u> X </u>	<u> </u>
TOTALS	<u> 7 </u>	<u> 0 </u>