

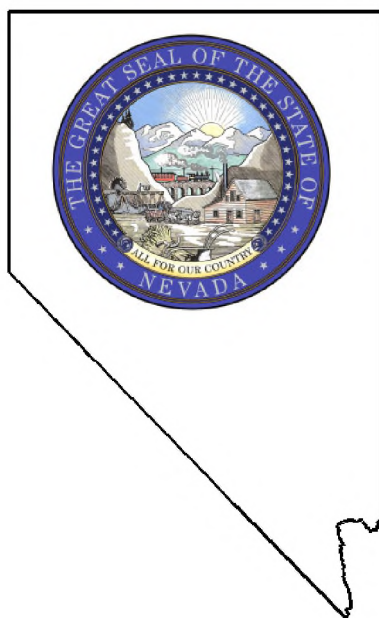
STATE OF NEVADA

Performance Audit

Public Utilities Commission of Nevada

Performance Measures

2023



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Public Utilities Commission of Nevada, Performance Measures issued on September 10, 2024.

Legislative Auditor report # LA24-09.

Background

The Public Utilities Commission of Nevada (PUCN) was established in 1911. It regulates approximately 400 investor-owned utilities engaged in electric, natural gas, telecommunications, water and wastewater services, gas and electric “master meter” service at mobile home parks, and some propane systems. In addition, it monitors gas pipeline, rail safety, and underground excavation near subsurface installations.

The PUCN’s mission is to protect the public interest by ensuring fair and reasonable utility rates, and regulating the delivery of utility services to benefit the economy, the environment, and all Nevadans. This mission is accomplished through eight program activity areas.

The PUCN maintains offices in Carson City and Las Vegas. As of June 30, 2022, there were 103 authorized positions. The PUCN is self-funded with two budget accounts. During fiscal year 2022, over \$12.2 million was collected in regulatory assessments. Additionally, nearly \$84,500 in administrative fines was collected and transferred to the General Fund in accordance with Nevada Revised Statutes 703.380.

Purpose of Audit

The purpose of the audit was to evaluate the PUCN’s internal controls over the reliability and relevance of its performance measures.

The audit focused on a review of performance measures for fiscal year 2022, and prior years for certain external reporting.

Audit Recommendations

This audit report contains three recommendations to strengthen controls over the usefulness and reliability of performance measures.

The PUCN accepted the three recommendations.

Recommendation Status

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

Performance Measures

Public Utilities Commission of Nevada

Summary

Stronger controls are needed over the administration of performance measures to improve usefulness and reliability. We analyzed the PUCN’s performance measures and found only 27% of its 33 measures were outcome based. Increasing the number of outcome measures would provide useful information to management and oversight bodies such as the Governor and Legislature in making budget and policy decisions. We also found reported results for measures were not always accurate. Additional guidance and oversight can improve the reliability of the agency’s measures. Useful and reliable performance measures are important to facilitate accountability and evaluate success in achieving goals.

Key Findings

The PUCN reported a total of 33 performance measures in the 2023 – 2025 Nevada Executive Budget System. We analyzed these measures and found only 9 (27%) were outcome based. The Budget Building Manual of the Governor’s Finance Office recommends outcome measures that demonstrate the impact the agency is having on Nevada. Additionally, the Budget Division and the Legislature encourage outcome based measures to get a sense of how an agency is operating. (page 4)

Steps can be taken to improve the reliability of the PUCN’s performance measures used in the state’s budget process. We found mathematical errors led to inaccurate data. Our review found three 2021 and five 2022 measures to be inaccurate. These measures existed within the program activity areas of the Safety Programs, Constituent Services, and Agency Human Resource Services. Accuracy and reliability are critical for assessing performance and determining whether agency objectives are being achieved. (page 7)

The PUCN policies and procedures do not provide adequate guidance to assist staff with measuring performance. During our testing, we found that the agency documents the methodology used for calculating each performance measure in a spreadsheet used by fiscal staff for inputting performance data into the state budget system. Additionally, some staff maintain informal procedures and handwritten notes for preparing their performance measures. Formal written policies and procedures demonstrate a commitment to reliable performance measures by providing agency staff clear instructions for collecting applicable information. (page 8)

Performance data is collected and compiled by individuals within each program activity area with little or no supervisory or management review. We found all fiscal year 2022 measures lacked an adequate review of measurement calculations and detailed support. For 24 of the 33 measures, staff indicated the measure was reviewed by program staff. However, no documentation existed to support this review. (page 9)

The PUCN’s current process for developing, maintaining, and monitoring performance data does not emphasize its use in managing operations. We found two of the agency’s eight program activity areas do not utilize performance data to manage their activity area: Fiscal and Financial Operations, Management, and Reporting; and Agency Human Resource Services. Staff indicated that their performance measures are only calculated as part of the state budget process; therefore, the measurement results are not used to monitor internal performance. (page 9)

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This report contains the findings, conclusions, and recommendations from our performance audit of the Public Utilities Commission of Nevada, Performance Measures. 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 three recommendations to strengthen controls over the usefulness and reliability of 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,

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

Daniel L. Crossman, CPA
Legislative Auditor

January 4, 2024
Carson City, Nevada

Public Utilities Commission of Nevada

Performance Measures

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Introduction

Background

The Public Utilities Commission of Nevada (PUCN) was established in 1911. It regulates approximately 400 investor-owned utilities engaged in electric, natural gas, telecommunications, water and wastewater services, gas and electric “master meter” service at mobile home parks, and some propane systems. In addition, it monitors gas pipeline, rail safety, and underground excavation near subsurface installations.

The Commission is comprised of three Commissioners who are appointed by the Governor to 4-year terms. The Governor designates one Commissioner as Chair, and the Commission appoints an Executive Director who serves as the Chief Financial Officer and directs the daily operations of the PUCN.

The PUCN’s mission is to protect the public interest by ensuring fair and reasonable utility rates, and regulating the delivery of utility services to benefit the economy, the environment, and all Nevadans. This mission is accomplished through eight program activity areas.

- Electric and Water Resources Planning, Maintenance, and Development: Ensures the safety, viability, reliability, and efficiency of the regulated electric, water, and wastewater utilities.
- Rates and Rulemakings: Ensures the interests of the ratepayers and shareholders are balanced and rates charged by regulated utilities are just and reasonable. Additionally, it implements legislative direction regarding public utilities, renewable energy, and various energy programs.

- Business Certification, Licensing, and Permitting: Grants certificates, licenses, and permits to entities capable of providing a service to Nevada ratepayers.
- Safety Programs: In conjunction with the U.S. Federal Railroad Administration, enforces federal railroad safety regulations and orders in Nevada; reviews applications to modify or construct new railroad crossings; and enforces federal safety codes for all natural gas, master meter, and propane distribution systems.
- Constituent Services: Responds to utility consumer needs, problems, and inquiries; receives, investigates, and mediates complaints that arise between customers and their serving utilities including electric, gas, telecommunications, water, and sewer; and manages consumer outreach efforts.
- Fiscal and Financial Operations, Management, and Reporting: Responsible for budget and fiscal management, including assessments, fees, and administrative fines.
- Information Technology Support: Responsible for computer systems and operations of the Electronic Filings and Records Management System.
- Agency Human Resource Services: Responsible for human resource and administrative services.

Staffing and Budget

The PUCN maintains offices in Carson City and Las Vegas. As of June 30, 2022, there were 103 authorized positions of which 92 were filled, 61 in Carson City and 31 in Las Vegas.

The PUCN is self-funded with two budget accounts. Regulatory operations are recorded in a special revenue fund primarily consisting of annual assessments collected from public utilities for which the utilities receive recovery from their ratepayers. During fiscal year 2022, over \$12.2 million was collected in regulatory assessments, \$663,000 in federal funds relating to gas pipeline

safety, \$609,000 in rail safety program assessments and fees, nearly \$66,000 in administering the collection of the Universal Energy Charge, and over \$16,000 in other fees. Administrative fines assessed from statutory violations are recorded in the other budget account. During fiscal year 2022, nearly \$84,500 in administrative fines was collected and transferred to the General Fund in accordance with Nevada Revised Statutes (NRS) 703.380. Exhibit 1 shows the PUCN's fiscal year 2022 expenditures.

PUCN Expenditures Fiscal Year 2022	Exhibit 1
Description	Amounts
Personnel Services	\$11,371,721
Operating	1,174,952
Information Services	249,056
Transfers to Nevada State Library	184,756
Other Expenditures ⁽¹⁾	149,304
Travel	138,832
Transfers to General Fund	84,495
Total	\$13,353,116

Source: State accounting system.

⁽¹⁾ Other expenditures include training, purchasing assessment, state cost plan recovery, and Attorney General cost allocation.

Scope and Objective

The scope of our audit included a review of performance measures for fiscal year 2022, and prior years for certain external reporting. Our audit objective was to:

- Evaluate the PUCN's internal controls over the reliability and relevance of its performance measures.

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.

Controls Over Performance Measures Can Be Strengthened

Stronger controls are needed over the administration of performance measures to improve usefulness and reliability. We analyzed the PUCN's performance measures and found only 27% of its 33 measures were outcome based. Increasing the number of outcome measures would provide useful information to management and oversight bodies such as the Governor and Legislature in making budget and policy decisions. We also found reported results for measures were not always accurate. Additional guidance and oversight can improve the reliability of the agency's measures. Useful and reliable performance measures are important to facilitate accountability and evaluate success in achieving goals.

The PUCN reported 33 performance measures in the 2023 – 2025 Nevada Executive Budget System. Appendix A shows the PUCN's performance measures and reported results for fiscal years 2020 to 2022.

Increased Outcome Measures Would Be Beneficial

We analyzed the PUCN's 33 performance measures and found only 9 (27%) were outcome based. Performance measures that are outcome based demonstrate the impact of an agency. Outcome measures also help state officials get a sense of how the agency is operating and assist with budgetary decisions. Exhibit 2 shows the results of our analysis within each activity area, including the total number of measures, and number and percentage of outcome measures for each area.

**Outcome Measures By Activity Area
Fiscal Year 2022**

Exhibit 2

Activity Area	Number of Measures	Number of Outcome Measures	Percentage of Outcome Measures
Electric and Water Resources Planning, Maintenance, and Development	4	0	0%
Rates and Rulemakings	7	2	29%
Business Certification, Licensing, and Permitting	4	1	25%
Safety Programs	7	4	57%
Constituent Services	5	0	0%
Fiscal and Financial Operations, Management, and Reporting	2	1	50%
Information Technology Support	1	0	0%
Agency Human Resource Services	3	1	33%
Totals	33	9	27%

Source: Auditor analysis of the PUCN's performance measures.

The Budget Building Manual of the Governor's Finance Office recommends outcome measures that demonstrate the impact the agency is having on Nevada. Additionally, the Budget Division and the Legislature encourage outcome based measures to get a sense of how an agency is operating. Further, the National State Auditors Association indicates that outcome measures assess program impact and effectiveness and show whether expected results are achieved.

Our analysis revealed that current outcome measures were adequate and provided relevant information to properly evaluate the program activity area. However, the PUCN can continue to work on developing new or revising existing measures to better capture the impact of the services provided.

Management indicated its core mission and duties have not drastically changed over the years; therefore, performance measures have remained constant. While experienced staff recognize the importance of performance measures for state and federal reporting, more emphasis has been placed on the efficiency (timeliness) of performance which represents a majority of the agency's measures (42%). Even though this is an important aspect of performance, further emphasis should be placed on the agency's impact. For the efficiency measures identified during our analysis, most reported results of 100%. For

example, the PUCN has reported it has met its 5 day goal for filings reviewed, docketed, and distributed at 100% for several years. They may wish to adjust the measure to capture some aspect of the outcome of their performance in this area.

As it is commendable that the PUCN is completing cases, noticing dockets, and reviewing filings in a timely manner, it is more beneficial to measure the PUCN’s actual impact by compliance actions met, penalties upheld, gas pipeline damages decreasing, and fines collected, as depicted in existing agency outcome measures.

Types of Performance Measures

When planning, managing, and budgeting, administrators and policymakers need to evaluate various aspects of performance. Different types of measures can be used to provide specific information about a program’s activities. There are seven common types of performance measures. Exhibit 3 lists the seven types, their definitions, and an example of each type.

Performance Measures

Exhibit 3

Type	Definition	Example
Outcome	Measures the result (impact) of agency efforts	Percent of clients employed 6 months after completing job-training program
Efficiency	Ratio of outputs or outcomes produced to inputs used	Cost per client served
Efficiency (timeliness)	How quickly a service is provided	Average wait time for service
Quality	Measures customers' opinions of the services provided or goods produced	Average score on customer satisfaction survey
Population	Number of people or entities an activity might potentially serve	Number of businesses in Nevada with employees
Workload	Number of people or things the activity serves or funds	Number of businesses paying unemployment insurance taxes
Input	Measures the resources going into making a product or providing a service	Amount of money spent on the product/service

Source: State of Nevada Governor’s Finance Office Budget Division, Budget Building Manual 2023 – 2025 Biennium.

The State Administrative Manual states measurement of performance is crucial to the overall management of programs, since it is a tool of self-assessment, goal-setting, and progress monitoring.

Accuracy of Performance Measures Can Be Improved

The PUCN can take steps to improve the reliability of performance measures used in the state's budget process. We found mathematical errors led to inaccurate data. Accuracy and reliability are critical for assessing performance and determining whether agency objectives are being achieved.

Certain performance measures were not reliable due to mathematical errors. Our review found three 2021 and five 2022 measures to be reported inaccurately. These measures existed within the program activity areas of the Safety Programs, Constituent Services, and Agency Human Resource Services. Exhibit 4 shows each of these measures, the reported and actual performance data, and reason for error.

Performance Measures With Calculation Errors

Exhibit 4

	Fiscal Year	Performance Data		Reason for Error
		Reported	Actual	
<u>Safety Programs</u>				
Number of Gas Pipeline Inspection Field Days Per Inspector	2021	50	98	Staff erroneously excluded data from the first half of the fiscal year.
Number of Gas Pipeline Damages per 1,000 Tickets	2022	0.21%	2.15	Staff divided the number of damages by total tickets instead of by 1,000 tickets and reported results as a percentage.
Number of Rail Units Inspected	2022	11,842	21,762	Staff erroneously excluded data from the second half of the fiscal year.
<u>Constituent Services</u>				
Number of Community Events Attended	2021 and 2022	35	38	Staff erroneously excluded certain bimonthly meetings.
Number of Brochures/Pamphlets	2021 and 2022	3,522	4,072	Staff erroneously excluded data from the second half of the fiscal year.
<u>Agency Human Resource Services</u>				
Percent of Professional Employees Completing Training	2022	64.94%	62.34%	Staff erroneously included two employees whose training occurred during the previous fiscal year.

Source: Nevada Executive Budget System, Activity Budget Report 2023 – 2025 Biennium, and auditor analysis of PUCN records.

Although some of the errors were relatively minor, these errors went undetected because of the lack of review over performance measurement calculations. For the Safety Programs'

performance measure, “Number of Gas Pipeline Damages per 1,000 tickets,” the calculation error also resulted in the measurement description not matching the reported amount. Furthermore, the errors noted in the Constituent Services’ performance measures, “Number of Community Events Attended” and “Number of Brochures/Pamphlets,” also affected the accuracy of this performance data reported externally in the PUCN’s biennial report.

Additional Guidance and Oversight Can Enhance Reliability

The PUCN can enhance controls over the reliability of its performance measures by providing additional guidance to staff through policies and procedures. Oversight of measurement data is also needed by thoroughly reviewing measurement calculations and supporting documents for accuracy, and ensuring data is utilized for managing operations.

Written Policies and Procedures Not Adequate

The PUCN’s policies and procedures do not provide adequate guidance to assist staff with measuring performance. During our testing, we found the agency documents the methodology used for calculating each performance measure in a spreadsheet used by fiscal staff for inputting performance data into the state budget system. Additionally, some staff maintain informal procedures and handwritten notes for preparing their performance measures. Formal written policies and procedures demonstrate a commitment to reliable performance measures by providing agency staff clear instructions for collecting and calculating applicable information.

Procedures addressing developing, reporting, and monitoring performance measures are needed to help prevent the errors previously noted. The State Administrative Manual requires procedures to be developed on how performance measures are computed, including the formulas and information where the data is obtained and which reports are used. Procedures also help ensure the process for collecting performance data is reasonable and consistent over time, which is especially important since the PUCN has tenured employees and established procedures will assist future employees with compiling performance measurement data.

Performance Data Was Not Reviewed

Performance data is collected and compiled by individuals within each program activity area with little or no supervisory or management review. We found all fiscal year 2022 measures lacked evidence of an adequate review of measurement calculations and detailed support. For 24 of the 33 measures, staff indicated the measure was reviewed by program staff. However, no documentation existed to support this review.

The State Administrative Manual requires agencies to assign fiscal and program staff the responsibility of reviewing performance data. While the PUCN's Accounting and Fiscal Procedure Manual reiterates this requirement, staff are not following these procedures as they relate to performance measurement review. A thorough review reduces the risk of errors and ensures measures are reliable.

Performance Data Not Always Utilized Internally to Manage Operations

The PUCN's current process for developing, maintaining, and monitoring performance data does not emphasize its use in managing operations. We found two of the agency's eight program activity areas do not utilize performance data to manage their activity area: Fiscal and Financial Operations, Management, and Reporting; and Agency Human Resource Services. Staff indicated their performance measures are only calculated as part of the state budget process; therefore, the measurement results are not used to monitor internal performance.

A lack of performance measurement training contributed to the errors previously discussed. Through discussions with staff, we found only a few individuals had received performance measurement training, but this was several years ago. Performance measures are designed to assist an agency and government officials in identifying financial and program results, evaluating past resource decisions, improving future resource allocation decisions, and communicating program results. By preparing and utilizing performance data, the agency can evaluate whether resources are being used efficiently and effectively to carry out its mission and determine the success of its programs.

Recommendations

1. Increase the number of outcome performance measures to reflect PUCN programs' impact and help state officials make budget and policy decisions about operations.
2. Enhance and communicate written policies and procedures for compiling performance measures and ensuring reported results are reliable, including supervisory review by program and fiscal staff of calculations, methodologies, and measurement descriptions.
3. Ensure applicable staff receive adequate training over performance measures to inform them of state requirements.

Appendix A

PUCN's Performance Measures

Fiscal Years 2020 to 2022

Performance Measure	Reported Results		
	FY 2020	FY 2021	FY 2022
<u>Electric and Water Resources Planning, Maintenance, and Development</u>			
1 Percent of Cases Completed within Statutory Effective Dates	100.00%	100.00%	100.00%
2 Percent of Dockets Noticed within 10 Business Days of Docket Distribution	100.00%	100.00%	100.00%
3 Performance Survey Evaluating Electric/Water Resource Planning Proceedings	100.00%	100.00%	100.00%
4 Filings Reviewed, Docketed, and Distributed within 5 Business Days	100.00%	100.00%	100.00%
<u>Rates and Rulemakings</u>			
5 Percent of Cases Completed within 210 Days per Statute	100.00%	100.00%	100.00%
6 Performance Survey Evaluating General Rate Case Proceedings	100.00%	100.00%	100.00%
7 Percent of Commission Ordered Compliance Actions Met	78.41%	59.32%	80.00%
8 Percent of Dockets Noticed within 10 Business Days of Docket Distribution	100.00%	100.00%	100.00%
9 Filings Reviewed, Docketed, and Distributed within 5 Business Days	100.00%	100.00%	100.00%
10 Percent of Rulemakings Opened within 60 Days of Passage	100.00%	100.00%	0.00%
11 Number of Commission Ordered Compliance Actions Met	69	50	60
<u>Business Certification, Licensing, and Permitting</u>			
12 Filings Reviewed, Docketed, and Distributed within 5 Business Days	100.00%	100.00%	100.00%
13 Percent of Compliance to Issue Utility Environmental Protection Act Permit	100.00%	93.33%	100.00%
14 Percent of Dockets Noticed within 10 Business Days of Docket Distribution	100.00%	100.00%	98.51%
15 Number of Certificates, Licenses, and Permits Issued	43	42	51
<u>Safety Programs</u>			
16 Number of Gas Pipeline Inspection Field Days per Inspector	108	50	88
17 Staff/General Counsel Recommended Gas Code Penalties Upheld by Commission	100.00%	100.00%	100.00%
18 Number of Rail Defects Reported per Inspection Day	1	2	3
19 Number of Federally Reportable Track Derailments per Fiscal Year	22	13	27
20 Number of Gas Pipeline Damages per 1,000 Tickets	0.23%	0.23%	0.21%
21 Number of Local Gas Distribution Companies Audited	2	2	2
22 Number of Rail Units Inspected	14,680	16,875	11,842
<u>Constituent Services</u>			
23 Percent of Complaints Resolved within 45 Calendar Days	91.67%	100.00%	90.00%
24 Percent of Media Inquiries Responded to by the Media Outlet's Deadline	100.00%	100.00%	100.00%
25 Number of General Consumer Sessions Held	3	3	3
26 Number of Community Events Attended	28	7	28
27 Number of Brochures/Pamphlets Distributed	4,289	920	2,602

Appendix A

PUCN's Performance Measures

Fiscal Years 2020 to 2022 (continued)

Performance Measure	Reported Results		
	FY 2020	FY 2021	FY 2022
Fiscal Financial Operations, Management, and Reporting			
28 Percent of Demand Letters Sent to Delinquent Entities Timely	100.00%	100.00%	100.00%
29 Percent of Fines Collected Resulting From Commission's Show Cause Action	93.57%	85.71%	54.64%
Information Technology Support			
30 Percent of Filings Processed/Available to the Public within 5 Business Days	100.00%	100.00%	100.00%
Agency Human Resource Services			
31 Percent of Professional Employees Completing Training	55.84%	48.05%	64.94%
32 Percent of Employees Completing State Mandated Training	95.15%	98.06%	98.10%
33 Percent of Newly Hired or Promoted Staff with Development Plans	100.00%	0.00%	83.33%

Source: Nevada Executive Budget System, Activity Budget Report 2023 – 2025 Biennium.

Appendix B

Audit Methodology

To gain an understanding of the Public Utilities Commission of Nevada (PUCN), we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to the PUCN's operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the PUCN's activities. Furthermore, we documented and assessed internal controls over performance measures.

Our audit included a review of the PUCN's internal controls significant to our audit objective. Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objective of the entity. The scope of our work on controls related to performance measures include the following:

- Exercise oversight responsibility; establish structure, responsibility, and authority; and evaluate performance and enforce accountability (Control Environment);
- Design and implement control activities through policy (Control Activities);
- Communicate internally and externally (Information and Communication); and
- Perform monitoring activities (Monitoring).

Deficiencies and related recommendations to strengthen the PUCN's internal control systems are discussed in the body of this

report. The design, implementation, and ongoing compliance with internal controls is the responsibility of agency management.

To obtain a general understanding of the PUCN's performance measures, we discussed with management the process of compiling measures, guidance used for developing and revising measures, utilization of measures in program operations, and agency policies and procedures over performance measures. We then identified the agency's fiscal year 2022 performance data stated in the 2023 – 2025 Nevada Executive Budget System. Next, we determined the type of each measure, adequacy of measures, and evaluated performance data differences between fiscal years 2020, 2021, and 2022.

To determine the reliability and relevance of the PUCN's 33 performance measures within its 8 program activity areas, we discussed with staff measurement calculations and reviewed processes. We then assessed whether measures were relevant, quantifiable, and logically related to each activity area in accordance with state budget guidelines. We also traced measures to the agency's strategic plan and tested for compliance with the State Administrative Manual over performance measures.

Next, we judgmentally selected 12 measures based on activity area significance and obtained fiscal year 2022 supporting documentation for review. For documentation derived from the agency's ApplicationXtender database, we ensured the accuracy and completeness of the data by tracing to various source documents. We found the database to be sufficiently reliable for our testing. We then examined the 12 measures' supporting documentation for mathematical accuracy, verified the name of measure adequately described the measure based on support, and the methodology used was reasonable and consistent with prior years. Based on our discussions and testing, we concluded on the reliability and relevance of the PUCN's performance measures reported in the Nevada Executive Budget System.

To determine the reliability of the agency's performance data reported to external sources other than the state budget system, we inquired of management and identified these external reports,

which included the agency's strategic plan, biennial report, and federal reports relating to the PUCN's Safety Programs. We obtained these reports and identified performance data similar to what was reported in the state budget system. We then compared performance data reported externally to what was reported in the state budget, investigating any differences. Based on our discussions and testing, we concluded on the reliability of agency performance data externally reported.

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

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

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Executive Director of the Public Utilities Commission of Nevada. On December 5, 2023, 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 C, which begins on page 17.

Contributors to this report included:

Maria Bevers, MBA
Deputy Legislative Auditor

Todd C. Peterson, MPA
Chief Deputy Legislative Auditor

Tammy A. Goetze, CPA
Audit Manager

Appendix C

Response From the Public Utilities Commission of Nevada



STATE OF NEVADA
PUBLIC UTILITIES COMMISSION

HAYLEY WILLIAMSON
Chair
TAMMY CORDOVA
Commissioner
RANDY J. BROWN
Commissioner
STEPHANIE MULLEN
Executive Director

Daniel L. Crossman, CPA
Legislative Auditor
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401 S. Carson Street
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Dear Mr. Crossman:

The Public Utilities Commission of Nevada (PUCN) is in receipt of your letter and the draft audit report and recommendations proposed by the Legislative Counsel Bureau (LCB). The audit recommendations were provided to the PUCN on November 28, 2023.

The PUCN appreciates the professional and thorough audit by LCB staff, as well as the thoughtful recommendations provided to the agency.

As provided below, the PUCN agrees with all of the recommendations. The recommendations provided in the report will assist the PUCN in fulfilling its mission to protect and serve the public interest, while ensuring safe and reliable utility service, at just and reasonable rates, through fair and impartial regulation.

Listed below is each recommendation followed by a discussion regarding the PUCN's implementation of the proposal.

Recommendation 1:

Increase the number of outcome performance measures to reflect PUCN programs' impact and help state officials make budget and policy decisions about operations.

The PUCN agrees with the recommendation. The PUCN has not updated its performance measures since June of 2014. Legislation enacted since then has established new policies and programs related to utility regulation, and the PUCN will work to increase its use of outcome-based performance measures to reflect how/whether the PUCN's implementation of legislation has advanced particular policy objectives. The PUCN notes, however, that its primary functions, which involve quasi-judicial decision-making in cases where numerous parties are entitled to due process, often do not allow for the use of traditional outcome-based performance measures. In fact, the use of outcome-based performance measures could jeopardize the impartiality of the PUCN's decision-making process and also affect the quality and independence of the work of the PUCN's Regulatory Operations Staff (Staff), which appears as a separate litigant in cases before the PUCN's decision-

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making body. With regard to impartiality, the PUCN's decision in a contested case must be based solely on the evidentiary record and cannot be influenced by unlawful predeterminations or bias; thus, any performance measure that encourages a particular outcome in a contested case would be improper. Similarly, it would be inappropriate to evaluate Staff's performance based on outcomes such as its success rate in contested proceedings, as doing so could, for example, have a chilling effect on Staff's willingness to advocate positions that it perceives as unlikely to be adopted by commissioners, even if Staff believes that such positions are in the public interest. Accordingly, when developing performance measures related to contested regulatory proceedings, the PUCN will focus primarily on timeliness and legal sufficiency.

Recommendation 2:

Enhance and communicate written policies and procedures for compiling performance measures and ensuring reported results are reliable, including supervisory review by program and fiscal staff of calculations, methodologies, and measurement descriptions.

The PUCN agrees with the recommendation. Management will work with each division to enhance written policies and procedures for compiling performance measures and ensuring reported results are reliable. Additionally, a layer of division management approval will be required for each performance measurement to include supervisory review by program and fiscal staff of the calculations, methodologies, and measurement descriptions.

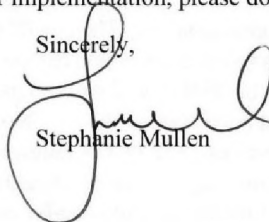
Recommendation 3:

Ensure applicable staff receive adequate training in performance measures to inform them of state requirements.

The PUCN agrees with this recommendation. Division training manuals and procedures will be reviewed and updated, or revised as needed, to include state requirements regarding performance measures. Additionally, verbal instruction will be given to employees responsible for compiling and reviewing performance measures data.

Once again, I appreciate your time and consideration throughout this audit. Should you have any questions regarding the PUCN's plans for implementation, please do not hesitate to contact me.

Sincerely,



Stephanie Mullen

Public Utilities Commission of Nevada's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Increase the number of outcome performance measures to reflect PUCN programs' impact and help state officials make budget and policy decisions about operations	<u>X</u>	<u> </u>
2. Enhance and communicate written policies and procedures for compiling performance measures and ensuring reported results are reliable, including supervisory review by program and fiscal staff of calculations, methodologies, and measurement descriptions	<u>X</u>	<u> </u>
3. Ensure applicable staff receive adequate training over performance measures to inform them of state requirements	<u>X</u>	<u> </u>
TOTALS	<u><u>3</u></u>	<u><u> </u></u>