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We have completed an audit of the Transportation Services Authority. This audit was authorized by the Legislative Commission on October 30, 2003. 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. The results of our audit, including findings, conclusions, recommendations, and the Transportation Services Authority's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Transportation Services Authority for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

November 22, 2004
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF BUSINESS AND INDUSTRY
TRANSPORTATION SERVICES AUTHORITY

AUDIT REPORT

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DEPARTMENT OF BUSINESS AND INDUSTRY
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EXECUTIVE SUMMARY

DEPARTMENT OF BUSINESS AND INDUSTRY TRANSPORTATION SERVICES AUTHORITY

Background

The Transportation Services Authority (TSA) administers and enforces state laws pertaining to passenger transportation, household goods movers, and tow cars. Passenger transportation regulated by the TSA primarily includes limousines, taxicabs outside of Clark County, charter buses, and airport shuttle services. The TSA was created by the 1997 Legislature and commenced operation on October 1, 1997. Prior to this date, the Public Service Commission was responsible for regulation of these carriers. The TSA includes three commissioners appointed by the Governor. For fiscal year 2004, the TSA had a total of 25 authorized positions and approximately \$2.5 million in expenditures.

Purpose

The purpose of this audit was to evaluate the Transportation Services Authority's monitoring of certified carriers, including whether activities were carried out in accordance with applicable state laws, regulations, and policies. This audit focused on the TSA's oversight of certified carriers in operation during calendar year 2003.

Results in Brief

The Transportation Services Authority had not established sound processes for monitoring carriers under its authority. Policies, procedures, and other controls were not in place to guide the activities of enforcement staff. As a result, vehicle safety inspections were not performed as required, oversight of carrier operations was not adequate, and methods to help protect consumers were not fully

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implemented. In addition, performance measures reported by the TSA were unreliable. Because of these weaknesses, the TSA does not have reasonable assurance that carriers comply with public safety requirements. During our audit, the TSA was working to address several of the weaknesses identified in this report.

Principal Findings

- Limousine and taxicab carriers did not perform annual vehicle safety inspections as required during 2003. Our review of safety inspection records for 68 vehicles identified that 58 (85%) were not inspected as required by TSA regulations. The inspection of vehicle safety components, such as the brake system, is important to help ensure safe and reliable vehicles are used for public transportation. Although the TSA does not perform the inspection, they are responsible for ensuring carriers comply with the inspection requirements. (page 10)
- The TSA could not provide inspection records for 23 of 30 vehicles we identified as placed in service during 2003. When vehicles are not inspected before they are placed in service, there is an increased risk they do not meet safety and other requirements established by the TSA. Carriers are required to notify the TSA in writing before placing a new or used vehicle in service. A used vehicle must pass an inspection by TSA. For new vehicles, carriers are required to make the vehicle available for inspection. (page 11)
- The TSA does not have a process to identify buses requiring an inspection. For all 20 bus companies we selected, the TSA could not provide any information regarding bus inspections. Because data on buses is not tracked, the TSA does not have the information it needs to verify compliance with the annual vehicle

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safety inspection requirements of NAC 706.247, and the placed-in-service inspections pursuant to NAC 706.381. According to management, tracking buses is difficult because some companies move their buses in and out of Nevada from other states. However, procedures are being developed for tracking buses and the inspection of buses operating within Nevada. (page 12)

- The process for performing and documenting on-site inspections of carriers' operations can be improved. The TSA could not provide evidence it had ever conducted an on-site inspection for 22 of 40 companies we tested. Half of the companies without an inspection report were in operation before the inception of TSA in 1997, and only 6 companies were inspected during 2003. The TSA has established a performance goal of conducting on-site inspections for 45% of the certified carriers each fiscal year. On-site inspections are important for identifying and correcting carrier violations such as not establishing a driver drug testing program. (page 13)
- The TSA did not monitor fully regulated carriers to ensure their operations are financially stable. From our review of annual financial reports, 9 of 20 carriers tested did not meet the 20% owner's equity requirement for reports submitted in 2003. Furthermore, five of these carriers have not met the financial requirement for 2 years or more. The ownership equity requirement has been established by the TSA to help ensure the value of a carrier's assets exceed liabilities by a sufficient amount. When carriers are financially unstable, they are more likely to cut costs related to vehicle maintenance and insurance. (page 14)
- One company did not take 15 taxicabs out of service when required by TSA regulations. These vehicles should have been taken out of service during 2003 once they reached the time limit for months in use.

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NAC 706.3745 limits the number of months a taxicab can be used in Washoe County. New vehicles may not be driven more than 60 months after the date the vehicle was placed into service. For used vehicles, the limit is 48 months. This regulation helps minimize the number of unreliable or unattractive vehicles in service. (page 15)

- Six of the eight carriers that leased their taxicabs to drivers used out-of-date lease agreements. The six out-of-date agreements were in effect prior to the inception of the TSA in 1997, and refer to the Public Service Commission. According to TSA, a majority of the taxicab drivers in the Reno-Sparks area are lease drivers and work as independent contractors. Because lease agreements do not state the current requirements that lease drivers must follow, there is an increased likelihood that drivers will violate safety standards and other TSA requirements. (page 15)
- The TSA did not inspect and seal any taximeters between September 2002 and December 2003. During this time, TSA taxicab carriers had approximately 350 taxicabs in service, primarily in northern Nevada. Effective September 2002, NAC 706.3758 requires all taxicabs to have their meter inspected and sealed by the TSA. When a taximeter is not inspected and sealed, there is an increased risk that the meter has been altered and is not charging the approved rate. In January 2004, the TSA initiated a program to notify taxicab operators and start inspecting meters. (page 17)
- Our review of performance measures found the numbers reported in the Executive Budget and to TSA management are not reliable. None of the five performance measures we reviewed were reliable for fiscal years 2002 and 2003. For example, the TSA reported that 93% of complaints against the industry were resolved within 6 months; however, supporting records indicated 71% were resolved within 6 months.

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As a result, oversight bodies and managers may have used unreliable information when evaluating programs and making budget decisions. Unreliable measures occurred because of various reasons including calculation errors, inappropriate measurement methods, and a lack of sufficient documentation. (page 19)

- The TSA has opportunities to improve the efficiency and effectiveness of its enforcement activities. Although the TSA has taken steps to improve its enforcement officer presence on the streets, we identified several other ways efficiency and effectiveness can be improved. This includes (1) developing policies and procedures for carrier oversight, (2) using a risk-based approach for conducting carrier and vehicle inspections, (3) streamlining the citation hearings process, and (4) developing better databases for tracking management information. During our audit, the TSA started to address some of these areas. (page 21)

Recommendations

This audit report contains 15 recommendations to improve the Transportation Services Authority's monitoring of certified carriers and other related activities. These recommendations include developing policies, procedures, and other controls to ensure all required inspections of vehicles and carrier operations are performed. In addition, recommendations include developing policies and procedures and revising regulations to improve consumer protection. We also made recommendations to ensure accurate performance measures, to improve efficiency and effectiveness of enforcement activities, and to strengthen controls over revenues. (page 38)

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**DEPARTMENT OF BUSINESS AND INDUSTRY
TRANSPORTATION SERVICES AUTHORITY**

Agency Response

This agency, in its response to our report, accepted all 15 recommendations. (page 32)

Introduction

Background

The Transportation Services Authority (TSA) administers and enforces state laws pertaining to passenger transportation, household goods movers, and tow cars. Passenger transportation regulated by the TSA primarily includes limousines, taxicabs outside of Clark County,¹ charter buses, and airport shuttle services. The TSA was created by the 1997 Legislature and commenced operation on October 1, 1997. Prior to this date, the Public Service Commission was responsible for regulation of these carriers.

TSA staff are located at offices in Las Vegas and Sparks. In fiscal year 2004, the TSA had a total of 25 authorized positions. This includes three commissioners appointed by the Governor to 4-year terms. Pursuant to NRS 706.1511, not more than two commissioners may be residents of Clark County. The commissioners serve as administrative hearings officers and are the judicial arm of the TSA. The Governor designates one of the commissioners to serve as the executive officer. The Las Vegas office has two commissioners, nine administrative and nine enforcement staff. The Sparks office has one commissioner, one administrative and three enforcement staff.

The TSA has categorized its responsibilities into seven general areas:

- Ensure regulated carriers provide for public safety and are fit, willing, and able to serve the needs of the residents and traveling public.
- Ensure residents and tourists to the State receive fair and equitable treatment and service from regulated and certified carriers.
- Ensure rates and practices of fully regulated carriers are reasonable, non-predatory and non-discriminatory.
- Prevent unauthorized limousines, taxicabs, and other passenger vehicles from operating in Nevada and ensure all jurisdictional carriers have proper operating authority to provide protection for the riding public.

¹ The Taxicab Authority regulates taxicabs in Clark County.

- Regulate the tow car industry for provision of service only for non-consent tows.
- Establish and ensure carriers maintain minimum insurance standards against liability for personal injury and property damage.
- Regulate the household goods industry for fair, non-predatory pricing, and ensure safe transportation of household goods.

The TSA is funded primarily by a Highway Fund appropriation, with additional funds from user fees and fines. In fiscal year 2004, the TSA received an appropriation of approximately \$2.2 million, and collected about \$350,000 in fees and fines. Fiscal year 2004 expenditures were approximately \$2.5 million.

The TSA issues a Certificate of Public Convenience and Necessity (CPCN) to all carriers under its authority. However, federal and state laws govern the extent of regulation by the TSA. Fully regulated carriers must adhere to more stringent financial requirements and a more thorough application process. Further, the TSA has authority over the rates, routes, and services of a fully regulated carrier. For non-fully regulated carriers, the TSA's oversight is limited to motor carrier safety and insurance requirements. Exhibit 1 shows the types of certified carriers and TSA's regulatory authority.

Exhibit 1

**Types of Certified Carriers
and TSA's Regulatory Authority**

Fully Regulated Carriers	Non-Fully Regulated Carriers
<ul style="list-style-type: none"> • Airport Transfer Services⁽¹⁾ • Household Goods Movers • Limousine • Non-Emergency Medical Transfer • Special Services⁽¹⁾ • Taxicab • Tour Operator 	<ul style="list-style-type: none"> • Charter Bus • Tow Cars

Source: NRS 706.072, 706.445, and TSA.

⁽¹⁾ A type of passenger carrier that provides bus, limousine, and van services at a per capita rate.

Exhibit 2 shows the number of carriers and the number of vehicles for each type of carrier.

Exhibit 2

**Certified Carriers and Vehicles
Calendar Year 2003**

Carrier Type	Number of Carriers	Number of Vehicles
Charter Bus	69	Not Available ⁽¹⁾
Household Goods Movers	26	Not Available ⁽¹⁾
Limousine and Other ⁽²⁾	57	1,229
Taxicab	16	356
Tow Cars	122	675
Total	290	2,260

Source: TSA records for November and December 2003.

⁽¹⁾ TSA does not maintain a list of buses or household mover vehicles.

⁽²⁾ Includes airport transfer services, non-emergency medical transfer, special services, and tour operators.

Scope and Objective

This audit was requested through a letter of intent from the Senate Committee on Finance and the Assembly Committee on Ways and Means. The audit was authorized by the Legislative Commission on October 30, 2003, and was made pursuant to the provisions of NRS 218.737 to 218.893. 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.

This audit focused on the TSA's oversight of certified carriers in operation during calendar year 2003. The objective of our audit was to evaluate the TSA's monitoring of certified carriers, including whether activities were carried out in accordance with applicable state laws, regulations, and policies.

Findings and Recommendations

The Transportation Services Authority (TSA) had not established sound processes for monitoring carriers under its authority. Policies, procedures, and other controls were not in place to guide the activities of enforcement staff. As a result, vehicle safety inspections were not performed as required, oversight of carrier operations was not adequate, and methods to help protect consumers were not fully implemented. In addition, performance measures reported by the TSA were unreliable. Because of these weaknesses, the TSA does not have reasonable assurance that carriers comply with public safety requirements. During our audit, the TSA was working to address several of the weaknesses identified in this report.

Vehicle Safety Inspections Not Performed

The TSA did not ensure vehicle safety inspections were performed for limousines, taxicabs, and buses. These carriers did not meet annual inspection requirements for most of the vehicles we tested. Further, documentation was not available to verify all vehicles were inspected prior to being placed in service. As a result, there is an increased risk that vehicles are placed in service, or remain in service, that do not meet safety requirements established by the TSA.

Limousine and Taxicab Safety Inspections Not Performed as Required

Limousine and taxicab carriers did not perform annual vehicle safety inspections as required during 2003. Our review of safety inspection records for 68 vehicles identified that 58 (85%) were not inspected as required by TSA regulations. The inspection of vehicle safety components, such as the brake system, is important to help ensure safe and reliable vehicles are used for public transportation.

- **Limousine Safety Inspections**—35 of 40 limousines did not meet inspection requirements during 2003. Carriers did not provide any inspection records for 17 limousines and only provided maintenance records for 7 limousines. Although carriers did provide inspection records for 11 limousines, the records did not meet reporting requirements.

- **Taxicab Safety Inspections**—23 of 28 taxicabs did not meet inspection requirements during 2003. For 17 taxicabs, carriers provided only a copy of maintenance records such as an invoice for an oil change. Carriers did not provide any inspection records for five taxicabs, and one inspection record did not meet reporting requirements.

Pursuant to NAC 706.247, the TSA has adopted vehicle inspection requirements established by the Federal Government in 49 C.F.R. These federal regulations prohibit a motor carrier from commercial use of a vehicle unless each component identified passes an inspection at least once every 12 months. Examples of components inspected include the brake system, exhaust system, fuel system, lighting devices, steering mechanism, and suspension. In addition, a qualified inspector must perform this work. Although the TSA does not perform the inspection, they are responsible for ensuring carriers comply with the inspection requirements.

During our audit, the TSA established a new performance measure indicating staff will verify 100% of the vehicles operated by fully regulated carriers are inspected each year. In addition, management indicated they would establish guidance for carriers to follow when performing these inspections.

Limousines and Taxicabs Not Inspected Before Placed in Service

The TSA could not provide inspection records for 23 of 30 vehicles we identified as placed in service during 2003. The vehicles without inspection records included 16 limousines and 7 taxicabs. Most of these vehicles were used when placed in service. When vehicles are not inspected, there is an increased risk they do not meet safety requirements established by the TSA.

The placed-in-service inspection is more comprehensive than the annual vehicle safety inspection. Placed-in-service inspections include reviewing the vehicle's safety inspection report, verifying proof of insurance, registration, and checking other features installed after purchase. Examples of required features added after purchase are: emergency lights, cruising lights, company certificate number, unit number, signage, and paint colors.

NAC 706.381 requires carriers to notify the TSA in writing before placing a new or used vehicle in service. A used vehicle must pass an inspection by the TSA. For new vehicles, carriers are required to make the vehicle available for inspection.

According to management, it has been their general practice to inspect both new and used vehicles before they are placed in service.

Management also indicated they are reasonably confident that all or a vast majority of the vehicles placed into service received inspections; however, they did not maintain records of the inspections. Although the TSA believes the vehicle inspections occurred, a process should be established to ensure all inspections are conducted and documented.

Process to Identify Buses Requiring Inspection Has Not Been Established

The TSA does not have a process to identify buses requiring an inspection. For all 20 bus companies we selected, the TSA could not provide any information regarding bus inspections. Further, management stated they do not maintain lists of buses in service. Without proper monitoring, there is an increased risk buses do not meet public safety requirements established by the TSA.

Two types of inspections are required for buses under the TSA's authority. Buses operating within Nevada are subject to the annual vehicle safety inspection requirements of NAC 706.247. These intrastate buses are also subject to the placed-in-service inspections pursuant to NAC 706.381. Because data on buses is not tracked, the TSA does not have the information it needs to ensure compliance with these inspection requirements.

According to management, tracking buses is difficult because some companies move their buses in and out of Nevada from other states. However, procedures are being developed for tracking buses and the inspection of buses operating within Nevada.

Recommendations

1. Develop policies and procedures to monitor carriers for compliance with annual vehicle safety inspection requirements.
2. Develop policies and procedures to ensure all vehicles requiring an inspection are identified and inspected prior to being placed in service.

Better Oversight of Carrier Operations Is Needed

Better oversight of carrier operations is needed to ensure carriers comply with regulatory requirements intended to protect the public. Inspections of carrier operations were infrequent or not documented by TSA staff. In addition, carriers were not adequately monitored to ensure their operations were financially stable and their vehicles were taken out of service when required. Furthermore, most carriers that leased their taxicabs to drivers used lease agreements that were outdated.

On-Site Inspection Process Needs Improvement

The process for performing and documenting on-site inspections of carriers' operations can be improved. We requested the most recent on-site inspection report for 40 companies. However, the TSA could not provide evidence it had ever conducted an on-site inspection for 22 companies. Half of the companies without an inspection report were in operation before the inception of TSA in 1997. Of the 18 companies that were inspected, only 6 were inspected during 2003.

The TSA has established a performance goal of conducting on-site inspections for 45% of approximately 290 certified carriers each fiscal year. On-site inspections are important for identifying and correcting violations. An on-site visit to a certified carrier would include: reviewing driver qualification files and vehicle maintenance files, verifying a random drug testing program is in effect, and spot-checking vehicles for operational readiness and safety. These inspections have proven to be effective for detecting violations. For example, TSA staff identified violations in 7 of 18 inspection reports we reviewed. This included one company that was licensed to transport school children but did not have driver drug testing and driver qualification files.

Policies, procedures, and inspection checklists have not been established to guide and document the on-site inspection process. According to management, additional inspections could have been performed for the companies we tested. However, documentation was not available because it has been their general practice to not document on-site inspections that have not resulted in findings. Management also indicated procedures are being developed to provide uniform recording of all on-site inspections.

Time Clock Inspections Not Documented

TSA staff did not document their inspection and approval of time clocks for taxicab companies. For all five taxicab companies we selected, no evidence was provided to confirm the TSA approved their time clock. According to management, staff conducted inspections but did not maintain any records to document which carriers were inspected and approved. Because time clock inspections have not been documented, the TSA does not have adequate assurance that carriers are controlling the number of hours worked by taxicab drivers.

NAC 706.3761 requires taxicab companies to provide an appropriate, accurate, and operable time clock. The time clock must be approved by the TSA before its use. This regulation also establishes a maximum number of hours that taxicab drivers can work within 24-hour periods. In addition, NAC 706.3747 requires taxicab drivers to record on their trip sheet the time when each shift begins and ends. Therefore, the time clock provides a means for date and time stamping the trip sheet and monitoring the number of hours worked. Time clock inspections could be performed as part of the on-site inspection and documented on an inspection checklist.

Carriers Did Not Always Meet Minimum Financial Requirements

The TSA did not monitor fully regulated carriers to ensure their operations are financially stable. From our review of annual financial reports, 9 of 20 carriers tested did not meet the 20% owner's equity requirement for reports submitted in 2003. Furthermore, five of these carriers had not met this financial requirement for 2 years or more. The ownership equity requirement has been established by the TSA to help ensure the value of a carrier's assets exceed liabilities by a sufficient amount. When carriers are financially unstable, they are more likely to cut costs related to vehicle maintenance and insurance.

NAC 706.149 requires every fully regulated carrier to maintain an investment of not less than 20% in owner's equity. This regulation also establishes a timeframe for implementing a plan of corrective action when a carrier does not meet this requirement. Within 3 months of receiving notice from the TSA of failure to comply, the carrier is required to file a plan for meeting the requirement. Within 15 months of receiving notice, a carrier must meet the financial requirement.

Although fully regulated carriers are required to submit an annual financial report, TSA staff did not review the reports to verify compliance with equity requirements. Six of the nine carriers that did not meet equity requirements had equity below 10%, including three with negative equity. For example, one company had negative equity of \$135,000 as of December 2001. This same company's deficit increased to more than \$1.9 million as of December 2002. In addition, none of the companies were contacted by TSA during 2003 to establish a plan of corrective action.

Taxicabs Not Taken Out of Service When Required

One company did not take 15 taxicabs out of service when required by TSA regulations. These vehicles should have been taken out of service during 2003 once they reached the time limit for months in use. NAC 706.3745 limits the number of months a taxicab can be used in Washoe County. New vehicles may not be driven more than 60 months after the date the vehicle was placed into service. For used vehicles, the limit is 48 months. This regulation helps minimize the number of unreliable or unattractive vehicles in service.

Staff was unaware these vehicles should have been taken out of service in 2003. Instead of requiring the 15 taxicabs to be taken out of service, staff issued 2004 license plate decals for these vehicles. According to management, staff issued the decals in error because of a misunderstanding of regulatory requirements.

The TSA did not have an ongoing process to monitor out-of-service dates for all taxicabs in Washoe County. Management indicated they proposed the implementation of a tracking system after adoption of the vehicle use limits in 1999. However, vehicle tracking procedures and a database were never fully implemented.

Carrier Lease Agreements With Taxicab Drivers Are Outdated

Six of the eight carriers that leased their taxicabs to drivers used out-of-date lease agreements. The six out-of-date agreements were in effect prior to the inception of the TSA in 1997, and refer to the Public Service Commission. According to TSA, a majority of the taxicab drivers in the Reno-Sparks area are lease drivers and work as independent contractors. Because lease agreements do not state the current requirements that lease drivers must follow, there is an increased likelihood that drivers will violate safety standards and other TSA requirements.

We identified several instances when the lease agreement did not contain language specifically required by NAC 706.3753. For example, six of eight lease agreements did not state:

- The independent contractor shall not operate the taxicab for more than 12 hours in any 24-hour period.
- The independent contractor shall return the taxicab to the certificate holder at the end of each shift.
- The lease does not relieve the carrier from any of his duties set forth in Chapter 706 of NRS and NAC.

Although the TSA has adopted and revised its regulations since 1997, they have not required taxicab companies to update their lease agreement. Further, NRS 706.473 requires all lease agreements to be approved by the TSA. In February 2004, management indicated the TSA was in the process of drafting a standard lease agreement for all carriers to use.

Recommendations

3. Develop policies, procedures, and checklists to facilitate and document on-site inspections.
4. Develop policies and procedures to ensure all fully regulated carriers meet minimum financial requirements.
5. Develop policies and procedures to ensure taxicabs in Washoe County are taken out of service when required.
6. Develop a standardized lease agreement that meets the requirements set forth in regulation.

Consumer Protection Can Be Improved

The TSA can improve consumer protection in areas related to taximeter rates, complaints, and carrier advertising. Taximeters were not inspected as required, and a system to encourage valid complaints has not been fully established. Further, advertising by certified carriers did not always include their Certificate of Public Convenience and Necessity (CPCN) number as required. As a result, the TSA does not

have reasonable assurance taxicabs charge the approved rate, complaints are reported, and consumers can clearly identify advertising by certified carriers.

Taximeters Not Inspected and Sealed

The TSA did not inspect and seal any taximeters between September 2002 and December 2003. During this time, TSA taxicab carriers had approximately 350 taxicabs in service, primarily in northern Nevada. Effective September 2002, NAC 706.3758 requires all taxicabs to have their meter inspected and sealed by the TSA. When a taximeter is not inspected and sealed, there is an increased risk that the meter has been altered and is not charging the approved rate.

The TSA had difficulty implementing the taximeter inspection process after inspection requirements became effective. Management indicated the meter inspection training was not provided until August 2003, and the sealing equipment did not arrive until September 2003. In January 2004, the TSA initiated a program to notify taxicab operators and start inspecting meters.

Complaint Process Can Be Improved

The complaint process can be improved for taxicab and limousine passengers. Taxicab and limousine carriers are not required to provide information to passengers on where and how to file a complaint. For example, information about the TSA is not required to be posted within taxicabs or limousines, or on the back of receipts. Therefore, passengers may not know these carriers are regulated by the TSA. During 2003, the TSA recorded only 3 complaints on approximately 350 taxicabs and 13 complaints on approximately 1,225 limousines under its authority.

In comparison, the Taxicab Authority in Clark County received significantly more complaints per vehicle. Data obtained from the Taxicab Authority indicated it received approximately 2,900 complaints on the 2,600 taxicabs in Clark County during 2003. Although several factors can influence the number of complaints recorded, such as the number of trips per taxicab and the type of complaints tracked, the Taxicab Authority has established methods to encourage valid complaints.

During our audit, we identified some methods that could be used by the TSA to improve the complaint filing process for taxicab and limousine passengers. For example:

- The Taxicab Authority requires carriers to display a placard inside each taxicab. Per NAC 706.486, information about how to file a complaint with the Taxicab Authority must be posted in a conspicuous place.
- Tow car operators use their printed bill to inform customers. Pursuant to NAC 706.426, tow car operators must provide information on how to file a complaint. The name and address of the TSA may be printed on the bill or on an informational card.
- Consumers are able to electronically file complaints with the Taxicab Authority and other state agencies at their websites.

Because the TSA regulates a variety of carriers, it may need to establish different complaint notification methods for each type of carrier.

Website Advertising Not Adequately Monitored

Internet website advertising was not adequately monitored to ensure carrier CPCN numbers were disclosed to the public. Although most companies included their CPCN number in telephone book advertising, we found 7 of 15 companies did not include the certificate number in their website advertising. NRS 706.285 requires all advertising by a fully regulated carrier and an operator of a tow car to include the CPCN number.

Website advertising is important to monitor because consumer use of the Internet for vacation or special event reservations continues to grow. This includes limousine reservations for weddings and conventions that occur frequently in Las Vegas. When the consumer cannot clearly distinguish certified carriers from illegal operators, there is an increased risk people will do business with illegal operators.

Recommendations

7. Develop policies and procedures to ensure taximeters are inspected and sealed prior to being placed in service.
8. Revise TSA regulations to ensure taxicab and limousine passengers are informed on how and where to file complaints, and consider electronic filing for complaints.

9. Inform carriers that website advertising must include their CPCN number and monitor compliance with advertising requirements.

Performance Measures Are Not Reliable

Our review of performance measures found the numbers reported in the Executive Budget and to TSA management are not reliable. As a result, oversight bodies and managers may have used unreliable information when evaluating programs and making budget decisions. Exhibit 3 compares the measures reported in the 2003 Executive Budget with available TSA records.

Exhibit 3

TSA Performance Measures 2003 Executive Budget

Performance Measure	Reported in Executive Budget	Auditor Review of Available Records
Percent of complaints against the industry successfully resolved. ⁽¹⁾	93%	71%
Percent of public's request for information processed within 3 days.	99%	99% ⁽²⁾
Percent of industry applications successfully completed within 6 months.	74%	52%
Percent of transportation companies receiving operational inspection.	56%	36% ⁽²⁾
Percent of transportation companies receiving financial audit.	9%	21%

Source: 2003 Executive Budget and TSA records.

Note: One measure was not included because it is no longer used by TSA.

⁽¹⁾ TSA defines successfully resolved as resolved within 6 months.

⁽²⁾ Complete underlying records not maintained to verify measure. Percentage shown was calculated from summary documents.

None of the five performance measures we reviewed were reliable for fiscal years 2002 and 2003. Fiscal year 2002 measures were reported in the state's Executive Budget. The measures for fiscal year 2003 were reported internally to TSA management. Unreliable measures occurred because of various reasons including calculation errors, inappropriate measurement methods, and a lack of sufficient documentation.

- Four of five measures were not calculated correctly. For example, the measure for percent of companies receiving operational inspections was reported at 56%. However, the spreadsheet used to track this

measure contained an erroneous formula which double counted many inspections. The correct amount for 2002 was 36%.

- Inappropriate methods were used to measure results of four performance measures. For example, the measure for percent of complaints successfully resolved included numerous non-complaint items such as citations and various applications. TSA reported 93% were resolved within 6 months. However, we found 71% were resolved in this time.
- Some measures did not have competent underlying records to verify the measure reported. For example, staff did not retain the request form used to calculate the percent of public requests for information processed within 3 days. Therefore, we could not verify the percent reported.

In addition, we found the description of certain measures may not clearly communicate what is reported. For example, the TSA measures the percentage of applications successfully completed within 6 months. Although some users may believe the TSA is providing information on how long it takes to process an application for a new carrier, the measure includes applications for both existing and new carriers. For existing carriers, processing time is often significantly less because these applications include requests such as name changes and tariff increases. Therefore, the percentage of applications completed in 6 months does not communicate how long it takes new carriers to enter the industry. During 2003, the TSA reported that 82% of applications were processed within 6 months. However, we found that only 19% of initial applications were processed within this time.

The reliability of performance measures is important because the information is used by oversight bodies, managers, stakeholders, and the general public. According to the Government Finance Officers Association, performance measures play an integral role in planning, managing, and budgeting. In addition, Section 2512 of the State Administrative Manual requires performance measurement data in the Executive Budget to be reliable.

Recommendation

10. Establish controls over performance measures to ensure accurate reporting.

Opportunities to Improve Efficiency and Effectiveness

The TSA has opportunities to improve the efficiency and effectiveness of its enforcement activities. Although the TSA has taken steps to improve its enforcement officer presence on the streets, we identified several other ways efficiency and effectiveness can be improved. This includes (1) developing policies and procedures for carrier oversight, (2) using a risk-based approach for conducting carrier and vehicle inspections, (3) streamlining the citation hearings process, and (4) developing better databases for tracking management information. During our audit, the TSA started to address some of these areas.

Steps Taken to Improve Enforcement Officer Presence on the Streets

According to the TSA, concerns were expressed during 2003 that enforcement officers were not spending sufficient time on patrol and enforcement activities. In 2003, the TSA had nine sworn officers authorized to work on patrol and issue citations. However, much of their time was spent on carrier application investigations, complaint investigations, and vehicle inspections.

Because sworn officers were tasked with non-patrol activities, the TSA had a low enforcement presence on the streets. Our review of work activity records found that patrol time was low, resulting in few citations issued to licensed and unlicensed operators. For example:

- Our analysis of 2,700 hours worked by sworn officers found only 400 hours were spent on patrol. Officers in Las Vegas averaged 21.5% of their time on patrol. In Sparks, officers averaged only 6.2% of their time on patrol. Our analysis included the work hours reported by five officers during November 2003 through February 2004.
- Enforcement officers issued a total of 203 citations during 2003. Of this total, 161 were issued in southern Nevada and 42 were issued in northern Nevada. Las Vegas officers averaged 27 citations for the year and Sparks officers averaged 14 citations.

In addition, officers in northern Nevada did not always work at times when violations are most likely to occur. During 2003, these officers were scheduled to work weekdays, typically from 8 a.m. to 5 p.m. Beginning in 2004, a new schedule was

implemented that includes working evenings and weekends. Further, TSA established an initial goal of 25% patrol time for enforcement officers in northern Nevada.

The TSA has taken steps to better utilize sworn enforcement staff and improve their presence in the streets. For example, in 2003 two non-sworn compliance audit positions were created and funded by the Legislature. These compliance auditors, starting in early 2004, are to assume many of the responsibilities performed by TSA sworn officers such as selected investigations and compliance audits of vehicle safety records. In addition, changes were made to the inspection process for annual vehicle safety inspections. Sworn officers no longer spend their time performing vehicle safety inspections. Instead, carriers are now required to have their vehicles inspected by a qualified mechanic.

Policies and Procedures Are Needed for Carrier Oversight

Although the TSA has developed a policies and procedures manual for its administrative functions, policies and procedures are lacking for carrier oversight and enforcement activities. The lack of written procedures contributed to numerous problems noted in this report. The importance of comprehensive written procedures is magnified because enforcement staff is responsible for monitoring and performing various safety related inspections.

NRS 353A.020 requires each agency to develop written procedures to carry out their system of internal accounting and administrative control. This system of control includes procedures that reasonably ensure programs comply with laws and operations are efficient. Furthermore, agencies are required to periodically review their system of control to ensure it is working as intended.

High Employee Turnover

Written policies and procedures can help reduce the negative impacts of high turnover. Turnover of enforcement staff was 55% during calendar year 2003. Since inception of the TSA, the average length of stay for enforcement staff has been less than 3 years. Without written policies and procedures, new enforcement officers have little guidance on how to perform and document their work. In addition, the TSA is likely to spend more time than necessary training new officers.

Risk-Based Approach for Inspections Can Improve Efficiency

The TSA has not implemented a risk-based approach for inspecting carriers and their vehicles. A risk-based approach will allow the TSA to direct available resources to the areas of highest risk. This approach involves scheduling inspections based on the risk that a carrier may not provide safe and reliable transportation to the public. Furthermore, the process for verifying annual vehicle safety inspections can be more efficient by testing a sample rather than verifying 100% of a carrier's vehicles.

Inspections of Carrier Operations

The TSA does not have a process to identify high-risk carriers that should have an on-site inspection. Although the TSA has a goal of conducting inspections for 45% of the carriers each year, inspections are not planned or scheduled based on risk. TSA investigators typically go on site if (1) a complaint has been filed of a nature requiring an on-site visit, (2) a citation was issued requiring follow up, or (3) a company has requested some type of change to their authority requiring an on-site inspection.

A risk-based approach would allow the TSA to direct available resources to the areas of highest risk. This approach involves conducting a risk assessment of carriers. A risk assessment could include factors such as the size of a carrier's operations, the carrier's complaint or violation history, and length of time between inspections.

In addition, the TSA could achieve significant coverage by inspecting large carriers each year. For example, the three largest taxicab companies owned almost 80% of the taxicabs in service. In addition, the seven largest limousine carriers provided about 65% of the limousines in service. Therefore, inspections of these 10 carrier's operations would provide significant coverage of the industry using existing resources. Our testing included 8 of these 10 carriers. For six carriers, there was no evidence TSA went on-site during 2003.

Vehicle Safety Inspections

The process for verifying annual vehicle safety inspections can be more efficient by testing a sample rather than verifying 100% of a carrier's vehicles. Although testing every vehicle should identify all instances of non-compliance, we believe testing a sample of vehicles will efficiently identify whether a carrier is in compliance with vehicle safety requirements.

In November 2003, the TSA established a new performance measure indicating staff would verify that vehicle safety inspections were performed on all fully regulated vehicles. Therefore, newly hired investigators were given the task of verifying a safety inspection was performed for each vehicle.

For 2004, the TSA indicated they are considering having carriers submit vehicle inspection reports by mail during the annual vehicle renewal process. For small, rural companies this would be efficient. However, there are approximately 1,600 limousines and taxicabs combined. A large percentage of these vehicles are in Las Vegas or the Reno-Sparks area. Review of 1,600 inspection reports would require significant time. For large companies, testing a sample of vehicles during an on-site inspection would improve efficiency.

Streamlined Citation Payment Process Should Save Time

During our audit, we observed that the TSA conducted a formal hearing for each citation issued by an enforcement officer. For citations issued to drivers, there was no option to simply pay a fine and avoid the hearing. However, most other types of citations issued in Nevada can be paid without a court appearance. In addition, the Taxicab Authority has established a process to allow the payment of a citation issued to taxicab drivers in Clark County without a hearing.

For the hearing we observed in Sparks, six TSA employees plus a representative from the Office of the Attorney General were present. Three of these individuals traveled from Las Vegas to Sparks. The hearing process required enforcement officers to prepare an incident report and testify at the hearing. Officers indicated they spend about 1.5 hours to write and review a report. Additional time was spent at the hearing, which can vary significantly. For the hearings we observed, most citations were for minor offenses such as incomplete driver trip sheets.

After we inquired about the hearing process, the TSA took action to allow drivers to waive the hearing for certain violations. This involved the establishment of a settlement agreement, which can be used by drivers without prior violations. A streamlined process should save time in the future, especially if officers spend more time on patrol and more citations are written.

Better Databases for Tracking Management Information Are Needed

The TSA does not have adequate management information systems in place to oversee and coordinate its activities. Databases used to track management information were often incomplete or inaccurate. In addition, information was not always tracked to monitor carrier compliance with laws and regulations. The lack of reliable management information contributed to several problems identified in this audit report. Management information weaknesses noted during our audit include:

- Two databases generated incorrect performance information because of formula errors.
- TSA did not document all on-site inspections conducted. Therefore, information is not available showing which carriers were inspected and what work was performed.
- Carrier on-site inspection records were not readily available. Although inspection results provide good data for monitoring carriers, TSA did not maintain records that were easily retrievable.
- TSA has not maintained data for tracking placed-in-service inspections required by NAC 706.381.
- TSA did not track when taxicabs were to be taken out of service in Washoe County.
- The complaint database for northern Nevada was not updated timely for 9 of 10 closed complaints. One complaint was closed in January 2003, but was still listed as open in November 2003.

In order for an entity to run and control its operations, it must have reliable and timely information. Management and others need information in a form and time frame that enables them to carry out their internal control and other responsibilities. This information is needed to measure performance, ensure efficient and effective use of resources, and monitor compliance with laws and regulations.

During our audit, the TSA started to address weaknesses with their management information. In December 2003, the TSA began converting their databases from Microsoft Excel to Microsoft Access to improve their data query capabilities. However, management indicated there have been some problems with the conversion.

Recommendations

11. Develop comprehensive written policies and procedures for carrier oversight and enforcement activities.
12. Implement a risk-based approach for scheduling on-site inspections.
13. Monitor annual vehicle safety inspections while on site, and consider testing a sample of vehicles.
14. Develop accurate and reliable databases that provide easily retrievable management information.

Controls Over Revenues Need Strengthening

The TSA needs to strengthen controls over revenues at offices in Sparks and Las Vegas. We identified a lack of separation of duties at both offices. Standards for Internal Control recommend that key duties and responsibilities be divided among different people to reduce the risk of error or fraud. Controls in this area are important because the TSA collected approximately \$350,000 in fees and fines during fiscal year 2004.

In Sparks, the TSA has only one administrative employee. This employee collects, records, and deposits payments received. In addition, this employee prepares billings, issues the annual vehicle decals, and maintains the decal inventory. Therefore, this employee performs almost all duties related to revenues. Although these duties are difficult to separate with existing staff resources, compensating controls can be established to reduce the risk of loss.

Compensating controls can be established for Sparks by monitoring the inventory records for vehicle decals issued. Because most payments received in Sparks are fees from decals issued, these records can be used to estimate the amount of fees that should be received. This estimate can then be compared and reconciled to actual deposits in the state's accounting system. During our audit, we performed this reconciliation for decals issued during 2003. Staff in the Las Vegas office could perform this reconciliation periodically without spending a significant amount of time.

In Las Vegas, one employee makes deposits, records deposits in the state's accounting system, and reconciles receipts to deposits. By eliminating the deposit duties from this employee, better separation of duties can be achieved. This internal control weakness occurred because TSA's procedures do not clearly define which employee will make deposits. We noted that procedures identify two different employees as responsible for making deposits.

Recommendation

15. Reconcile decal inventory records to fees deposited and revise procedures for revenues to provide separation of duties.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Transportation Services Authority, we interviewed agency staff and reviewed statutes, regulations, and policies and procedures significant to the TSA's operations. In addition, we reviewed the agency's financial information, budgets, minutes of various legislative committees, and other information describing the activities of the TSA. We documented and assessed the TSA's internal controls for vehicle inspections, on-site inspections, financial reporting by carriers, taxicab leases, complaints, carrier advertising, performance measures, and collections.

To evaluate the monitoring of inspections for passenger vehicles, we selected 40 limousines and 28 taxicabs for annual vehicle safety inspections. Limousines were selected from vehicles more than 2 years old. For taxicabs, we selected 20 vehicles from Washoe County and 8 from other counties. We requested the TSA to obtain and provide vehicle safety inspection records for 2002 and 2003. We reviewed these vehicle safety inspection reports to verify compliance with TSA and federal requirements. We also identified 16 limousines and 14 taxicabs placed in service during 2003 to verify they were inspected prior to being placed in service. To determine if buses were inspected prior to being placed in service, we requested documents showing the TSA was notified in writing. We also requested TSA management confirm that no bus inspections or taximeter inspections were performed during 2003.

To evaluate the monitoring of carrier operations, we selected 15 limousine, 5 taxicab, and 20 bus companies to verify on-site inspections were performed. For limousine carriers, we selected companies with at least 10 vehicles. For taxicab carriers, selection was from the three largest companies in Washoe County and two companies from other counties. Bus carriers were selected based on a broad

representation of companies throughout the State. For each report provided, we documented the date, procedures performed, and inspection results.

Further, we selected 15 limousine and 5 taxicab companies for compliance with financial requirements. Selection was based on a broad representation of company size and geographic location. For each company selected, we reviewed the annual report to verify it was submitted timely, and the carrier met the 20% owner's equity requirement. We also selected 20 taxicabs from Washoe County for compliance with months in service limits. Taxicabs were selected by identifying older vehicles still in service. For each vehicle selected, we reviewed the vehicle title or dealer's report of sale to verify the months in service limit was not exceeded. For lease agreements, we selected all agreements in effect during 2003 to verify they were current and met all requirements.

To evaluate the process for encouraging valid complaints, we reviewed the complaint database to identify the total number of limousine and taxicab complaints in 2003. Next, we calculated the ratio of complaints per vehicle per year for limousines and taxicabs and compared this ratio to a similar agency. Further, we reviewed best practices guides and documented examples of comparative criteria for facilitating valid complaints. To evaluate the monitoring of complaints, we selected 20 complaints. Selection was based on 10 complaints in southern Nevada and 10 in northern Nevada. For each complaint, we verified timely correspondence with carrier and complainant, accurate database recording, proper supervisory review, and timely resolution.

To evaluate the monitoring of advertising by carriers, we selected 15 companies. Selection was based on the first 15 companies we identified as having a website. For each company selected, we reviewed their website and telephone book advertisement to verify their CPCN number was included.

To evaluate the TSA's performance measures, we selected the five measures in effect for more than 1 year. For each measure selected, we reviewed supporting documents to assess the reliability of the measure. We discussed the accuracy of measures and effectiveness of controls with TSA management.

We also reviewed citation records, enforcement staff activity logs, and enforcement staff personnel records to document the number of citations, time spent on patrol, and enforcement staff turnover.

To evaluate the TSA's collection process for annual renewal fees, we selected 10 limousine, 10 taxicab, and 20 tow companies. Selection was based on a broad representation of small, medium, and large companies located throughout the State. For each company, we verified the payment amount agreed with the number of decals issued. Next, we selected 45 fee payments and 10 fine payments. Fee payments were selected from a broad representation of small, medium, and large companies located throughout the State. Fines were selected from payments made by companies and individuals. For each selection, we reviewed the receipt, revenue log and deposit slip to verify payments were properly collected, deposited, and recorded. We also reviewed the adequacy of separation of duties in Las Vegas and Sparks.

Further, we selected 12 deposits made in Las Vegas. Selection was based on one deposit for each month in 2003. For each deposit, we compared the sum of all applicable receipts to the deposit amount and accounted for all out-of-sequence receipts to verify deposits were complete. We also performed analytical review of fee revenues. First, we documented the number of decals purchased, issued, and still on hand to project revenues for limousine, taxicab, and tow fees. Next, we compared our projection to amounts recorded in the state's accounting system to determine if revenues deposited were reasonable.

Our audit work was conducted from November 2003 to July 2004 in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the Department of Business and Industry and the Chairman of the Transportation Services Authority. On November 2, 2004, we met with agency officials to discuss the result of our audit and requested a written response to the preliminary report. That response is contained in Appendix B which begins on page 32.

Contributors to this report include:

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Appendix B

Response From the Transportation Services Authority

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Governor

STATE OF NEVADA

SANDRA LEE AVANTS
Chairman

SYDNEY H. WICKLIFFE, C.P.A.
Director
Business and Industry



BRUCE H. BRESLOW
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November 09, 2004

Paul V. Townsend, Legislative Auditor
Legislative Counsel Bureau
401 S. Carson Street
Carson City, Nevada 89701-4747

Dear Mr. Townsend:

This letter is being provided as the agency's response to the Legislative Counsel Bureau (LCB) audit report for the Transportation Services Authority (TSA) dated October 15, 2004. An explanation of each finding and the agency's anticipated corrective action is provided below. Additionally, enclosure (1) provides the completed form titled "Response to Audit Recommendations".

The agency appreciates the LCB audit team's professional and informative approach. Since this was the first audit for the agency, we found it helpful in highlighting areas where the agency can improve to better serve the traveling public, the transportation industry and the citizens of the State of Nevada.

In April 2003, the Governor named Commissioner Sandra Avants as the new Chairman of the TSA. At that time Kimberly Maxson-Rushton was appointed Commissioner, joining Commissioner Bruce Breslow. Shortly thereafter, a complete reorganization of the agency was undertaken in an effort to address numerous concerns pertaining to internal operations and the procedures to regulate the transportation industry. Many of these changes are reflected in the TSA's October 2003 report to the Interim Finance Committee. (See Enclosure 2) As a result of this new management team, many of the findings identified in the audit had been identified and in many instances, corrective measures begun.

While these changes were taking place, the LCB initiated an audit of the TSA. As audits take a snapshot of an Agency in a specific time period, this audit focused on the year **prior** to the implementation of most of the above referenced changes. While the TSA accepts the information and findings set forth in the audit report, we believe it is important to note that the TSA had already initiated corrective action in many of the problem areas identified in the report. Listed below is each finding in the audit and the agency' response for each of them.

Recommendation 1: Develop policies and procedures to monitor carriers for compliance with annual vehicle safety inspection requirements.

As addressed in the TSA's October 2003 report to the Interim Finance Committee (See Enclosure 2), ensuring compliance with the annual vehicle safety inspection requirements was identified by the new Board of Commissioners as a highest priority. At the time the audit was initiated, the TSA was in the process of verifying the safety inspections of vehicles operated by the certificated carriers. For FY04, the TSA can report 100% verification that the required annual vehicle safety inspections had been performed. With the information attained during this inspection process, written policies and procedures are currently being developed to ensure compliance with annual vehicle safety inspection requirements.

Recommendation 2: Develop policies and procedures to ensure all vehicles requiring an inspection are identified and inspected prior to being placed in service.

Policies and procedures are being developed to clearly establish guidelines for keeping records of vehicle inspections prior to being placed in service. Though the TSA had been inspecting new vehicles before authorizing them to be placed in service, procedures were not in place explaining the routing and method of keeping records of these inspections. As a matter of practice, inspections had been occurring in accordance with NAC 706.381, but records were not being filed and thus not available for the auditors to verify. New written policies and procedures will correct this problem.

Recommendation 3: Develop policies, procedures and checklist to facilitate and document on-site inspections.

The recordation of operational inspections was not uniformly filed or created. Procedures have been developed and implemented with a new reporting form developed for operational inspections. All operational inspections will be documented with an investigation number and will be retrievable on the new enforcement database. All the officers have been trained in the new procedures, but written procedures still need to be developed for standardization of staff reports.

Recommendation 4: Develop policies and procedures to ensure all fully regulated carriers meet minimum financial requirements.

Policies and procedures are being developed to establish guidelines to ensure that all fully regulated carriers meet minimum financial requirements. A new financial analyst was hired in March 2004 and has identified those carriers who have not met the 20 percent equity requirement for 2003 (annual reports are filed in May 2004). The annual reports for all fully regulated carriers are being reviewed to ensure they meet the 20% equity requirement.

Recommendation 5: Develop policies and procedures to ensure taxicabs in Washoe County are taken out of service when required.

Policies and procedures are being developed to clearly establish guidelines to ensure Washoe County taxicabs are removed from service per established criteria. Information concerning the age of vehicles and date of service will be included in the database in the future for easy review by management.

Recommendation 6: Develop a standardized lease agreement that meets the requirements set forth in regulation.

The agency is currently working with Attorney General's office to develop a new standardized lease agreement for the taxicab industry. This standardized lease agreement is nearing completion and will be presented to the Board of Commissioners at the December 2004 Agenda Meeting.

Recommendation 7: Develop policies and procedures to ensure taximeters are inspected and sealed prior to being placed in service.

Policies and procedures are now being developed to establish guidelines to ensure that taximeters are inspected and sealed prior to being placed in service. The TSA implemented a program in August 2003 to inspect and seal taximeters. Equipment was ordered and staff trained during the next several months. All taxicab meters were inspected and certified before the end of FY04.

Recommendation 8: Revise TSA regulations to ensure taxicab and limousine passengers are informed on how and where to file complaints, and consider electronic filing for complaints.

The TSA is working on developing regulations to ensure that taxicab and limousine passengers are aware of how to file complaints with the TSA. Potential solutions are to require taxicab companies to have signage in the taxicabs as well as instructions on issued receipts explaining the complaint process. Regarding limousines, TSA is considering no signage requirement, so as to maintain the elegant appearance of the limousine, but requiring limousine companies to have the complaint procedures on the back of issued receipts. Improvements on the TSA website are underway to allow on-line complaint forms and have procedures for complaints available through the agency website.

Recommendation 9: Inform carriers that website advertising must include their CPCN number and monitor compliance with advertising requirements.

Policies and procedures are now being developed to clearly establish guidelines for carrier advertising. Upon completion, all certificated carriers will be properly advised.

Recommendation 10: Establish controls over performance measures to ensure accurate reporting.

The TSA is currently in the process of reviewing all aspects of performance measures. Definitions of each item are being revised to ensure clarity of meaning and clarity of exactly what must be reported. The methodology and formulas used for computing performance measures are being reviewed and revised, if appropriate, to ensure accuracy of reporting. All performance measures are being reviewed to ensure that underlying records from which those measures were determined could be recreated in the event of a future audit. All underlying records will be retained in accordance with the retention schedule defined by the State Records Committee. TSA Administrative Procedures #19, "Performance Measures Data", is being revised and will be sent to the Division of Internal Audits for review and approval

Recommendation 11: Develop comprehensive written policies and procedures for carrier oversight and enforcement activities.

Policies and procedures are being developed to improve the efficiency and effectiveness of the enforcement staff. The new compliance auditor positions will assume some of the responsibilities performed by TSA sworn officers such as selected application investigations and compliance audits of vehicle safety records. Additionally, sworn officers no longer spend their time performing vehicle safety inspections for the carriers. Instead, the carriers are required to complete annual vehicle safety inspections per federal regulations and then provide the annual inspection form to the TSA so they can verify 100% of the vehicles are being inspected for safety. Lastly, the TSA initiated a process similar to the Taxicab Authority and other government agencies that streamlines the hearing process for individuals with citations. First time offenders are given the opportunity to waive their right for a hearing and plead out their citations at 50% of the recommended fine amount. This was initiated in early 2004 and has reduced the time officers need to be in hearings and provided additional opportunity for patrol time.

Recommendation 12: Implement a risk-based approach for scheduling on-site inspections.

Policies and procedures are being developed to provide guidelines for initiating a risk-based approach for scheduling on-site inspections. The TSA has historically initiated operational inspections of carriers based on risk-based factors including carrier

complaints, the number of citations previously issued against a company and credible allegations. The TSA has also relied on random selection as a basis for the initiation of operational inspections. However, no written procedures were in place to explain this approach. With the new policies and procedures, the goal will be to inspect each carrier at least every four years.

Recommendation 13: Monitor annual vehicle safety inspections while on site, and consider testing a sample of vehicles.

Policies and procedures are being developed to provide officers guidance in performing additional safety inspections while on-site. Such inspections would include a review of vehicle maintenance records, drug testing results, safety programs, etc. These inspections would use a sampling-of -vehicles approach to ensure the carrier is in compliance with safety requirements between annual safety inspections.

Recommendation 14: Develop accurate and reliable databases that provide easily retrievable management information.

In December 2003 the TSA began converting the agency databases from Microsoft Excel to Microsoft Access. The new Access databases capture more data than an Excel spreadsheet. Access is relational and thus also produces more useful management reports to aid in tracking and monitoring carrier compliance. As enforcement policies and procedures are developed and staff has identified additional information to capture, we will refine the databases accordingly.

Recommendation 15: Reconcile decal inventory records to fees deposited and revise procedures for revenues to provide separation of duties.

The agency has revised procedures for revenue processing in both offices. The Sparks office is no longer allowed to accept cash: all payments must be in the form of check or money order. Since the Management Analyst and the Program Officer are not involved in the collection, recording or reconciliation of deposits, they will make the deposits for the Las Vegas office.

A new procedure for inventory of vehicle decals and license plates has been implemented. At the beginning of each calendar quarter, the Management Analyst in the Las Vegas office will reconcile entries made in the deposit log by the Administrative Assistant in Las Vegas against the entries made in the decal and license plate logs by the Management Assistant in Sparks to ensure accountability of revenue and decals/plates. Concurrently, a member of the enforcement staff in Sparks will conduct a visual inventory of all decals and plates and send the results to the Management Analyst. The Management Analyst will compare the results of the physical inventory to the reconciliation of tracking logs to ensure all revenues and decals/plates are accounted for.

Finding #15 is completed with revised internal control administrative procedures implemented and forwarded to the Division of Internal Audits for their review and approval.

Sincerely,



David Kimball, Deputy Commissioner

DK/bd

Enclosures (2)

cc: Sydney Wickliffe, CPA, Director
Department of Business and Industry
Agency Read File

Transportation Services Authority Response to Audit Recommendations

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Develop policies with procedures to monitor carriers for compliance with annual vehicle safety inspection requirements	<u> X </u>	<u> </u>
2	Develop policies and procedures to ensure all vehicles requiring an inspection are identified and inspected prior to being placed in service	<u> X </u>	<u> </u>
3	Develop policies, procedures, and checklists to facilitate and document on-site inspections.....	<u> X </u>	<u> </u>
4	Develop policies and procedures to ensure all fully regulated carriers meet minimum financial requirements	<u> X </u>	<u> </u>
5	Develop policies and procedures to ensure taxicabs in Washoe County are taken out of service when required	<u> X </u>	<u> </u>
6	Develop a standardized lease agreement that meets the requirements set forth in regulation.....	<u> X </u>	<u> </u>
7	Develop policies and procedures to ensure taximeters are inspected and sealed prior to being placed in service	<u> X </u>	<u> </u>
8	Revise TSA regulations to ensure taxicab and limousine passengers are informed on how and where to file complaints, and consider electronic filing for complaints	<u> X </u>	<u> </u>
9	Inform carriers that website advertising must include their CPCN number and monitor compliance with advertising requirements	<u> X </u>	<u> </u>
10	Establish controls over performance measures to ensure accurate reporting	<u> X </u>	<u> </u>
11	Develop comprehensive written policies and procedures for carrier oversight and enforcement activities	<u> X </u>	<u> </u>
12	Implement a risk-based approach for scheduling on-site inspections	<u> X </u>	<u> </u>
13	Monitor annual vehicle safety inspections while on site, and consider testing a sample of vehicles	<u> X </u>	<u> </u>

**Transportation Services Authority
Response to Audit Recommendations
(continued)**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
14	Develop accurate and reliable databases that provide easily retrievable management information	<u> X </u>	<u> </u>
15	Reconcile decal inventory records to fees deposited and revise procedures for revenues to provide separation of duties	<u> X </u>	<u> </u>
	TOTALS	<u> 15 </u>	<u> 0 </u>