

Audit Highlights



Highlights of Legislative Auditor report on the State Department of Transportation issued on September 29, 2010. Report # LA10-19.

Background

The mission of the Department of Transportation is to provide a better transportation system for Nevada through unified and dedicated efforts. It is responsible for the planning, construction, operation, and maintenance of the 5,400 miles of roadway and over 1,000 bridges that make up the state highway system.

The Department's revenues and expenditures are recorded in the State Highway Fund (2009 expenditures were \$772 million). The main funding sources for the Highway Fund are: (1) state fuel and motor vehicle taxes and fees, and (2) fuel tax and other highway-user revenue collected by the Federal Government. Federal funds are available to reimburse expenditures on approved projects. The Department had 1,660 positions filled at June 30, 2010, excluding temporary and seasonal employees.

A seven-member Board of Directors oversees the Department's operations. The members consist of the Governor, Lieutenant Governor, Attorney General, State Controller, and three members appointed by the Governor. Among its oversight duties, the Board considers all matters relating to the general policy of the Department.

Purpose of Audit

The purpose of this audit was to determine if the Department (1) awarded design-build projects in accordance with laws and prudent contracting practices, (2) reported performance measurement results and benefit-cost analyses to oversight bodies that were reliable and timely, and (3) used specifications for light and heavy equipment that did not unnecessarily limit competition. Our audit focused on the two design-build contracts awarded as of May 2010, performance measures and benefit-cost analyses reported for fiscal years 2008 and 2009, and purchases of light and heavy equipment from 2004 to 2009.

Audit Recommendations

This report contains six recommendations to improve the agency's operations in three areas. First, there are three recommendations to improve the Department's process for awarding design-build projects. Second, the report contains two recommendations to improve the reliability and timeliness of performance measurement and benefit-cost information provided to oversight bodies. Third, there is one recommendation to help ensure the Department's equipment specifications do not unnecessarily limit competition.

The Department accepted the six recommendations.

Status of Recommendations

The Department's 60-day plan for corrective action is due on December 29, 2010. In addition, the six-month report on the status of audit recommendations is due on June 29, 2011.

Department of Transportation

Results in Brief

The Department's process for awarding design-build projects has improved in the short time the design-build method has been used by the Department. Its awarding of two design-build projects totaling almost \$500 million complied with most state laws and prudent contracting practices. However, further improvements are needed. Specifically, for the first project, the Department did not follow evaluation methods established in the Request for Final Proposals. On the second project, the Department did not score proposal cost in a manner consistent with statutory provisions. The Department, based on its legal interpretation, believed its scoring of proposal costs was appropriate at the time. The scoring problem did not affect the outcome of who was awarded the contract. Nevertheless, correcting these problems will help improve transparency and provide additional assurance that contracts are awarded to the proposer offering the best value. Furthermore, complete and timely information about the evaluation of design-build proposals was not always provided to the Department's Board for its approval.

Performance measure results and benefit-cost analyses were not always reliable or consistently provided to the Department's Board and the Legislature. As a result of Assembly Bill 595 in the 2007 Session, the Department is required to provide performance measurement and benefit-cost information to these oversight bodies. Information that is not reliable or timely can impact decisions made by the Department's management, its Board, and the Legislature.

The Department did not always follow best practices when preparing specifications for equipment purchases. As a result, the Department used specifications for light and heavy equipment that unnecessarily limited competition. For the approximately \$5.6 million in equipment purchases tested, we found equipment specifications included overly restrictive requirements that in many cases targeted specific manufacturers' models or specified brand names. Overly restrictive specifications limit competition, waste bidders' and state employees' time, and often increase the price of equipment purchases. In contrast, we identified examples where other local, state, and federal entities prepare broader specifications that do not include restrictive specifications or use brand names.

Principal Findings

For the first design-build project, the Department did not evaluate proposals in accordance with methods established in the Request for Final Proposals (RFFP). The RFFP indicated the technical factors combined would have equal weight to the cost factor. The Department never applied these weights to the technical factors or the cost factor. Evaluating proposals according to the methods in the RFFP helps provide transparency in the award process. The amount awarded for this project was \$242.3 million.

The Department did not score cost proposals for the second design-build project consistent with statutory provisions. Specifically, the proposal costs were given a weight of 10%, which is less than the 30% minimum required by NRS 408.3886. The Department believed its scoring was appropriate at the time. The amount awarded for this project was \$246.5 million, and the scoring problem did not affect the outcome of who was awarded the contract. However, the awarding of future projects could be affected if this problem is not addressed.

The Department should provide its Board with additional information about its evaluations of design-build project proposals. For the first project, the Department did not present its evaluations to the Board for its approval. For the second project, the Department provided general information about its evaluations at a meeting in August 2009. However, at that meeting, the Department did not present detailed information about its evaluations, including ratings or cost information. Additional information was later provided.

Key performance measures reported to its Board and the Interim Finance Committee were often not reliable. We found four of the five measures tested were not reliable. The measures had one or more of the following problems: lacked supporting documentation, based on inappropriate methodologies, or included incomplete information.

The Department has not consistently implemented statutory provisions to perform benefit-cost analyses on projects. Specifically, the Department has not always performed the analyses and has not consistently presented the analyses to the Board. Benefit-cost analyses assist the Department and the Board in making decisions on how to spend their limited resources.

Restrictive specifications were often used by the Department. Specifically, 11 of the 13 invitation for bids tested had only one bid that met all specifications, or no bids that met all specifications. Accepting a bid when no bid met the specifications shows they were more restrictive than the Department's actual needs. In addition, specifications appeared to be written in some cases to target specific manufacturers' models and always included brand names.