



State of Nevada
Department of Administration
Division of Internal Audits

Audit Report

**Department of Motor Vehicles
Compliance Enforcement**

Report No. 14-05
June 2014

EXECUTIVE SUMMARY

Compliance Enforcement Division

Introduction.....page 1

Objective 1: Does Revenue from Occupational and Business License Fees Cover Enforcement Costs?

The division should consider restructuring Occupational and Business License (OBL) fees to ensure the revenue generated is sufficient to meet the cost of business enforcement and the fees reflect the risks posed to consumers. Restructuring OBL fees to meet these objectives will assign the enforcement costs in proportion to the resources regulated businesses require. This could benefit Nevada consumers by \$2.1 million annually.

Consider Establishing a Fee Model for Occupational and Business Licenses and Related Fees that Cover the Costs of Enforcing Regulations.....page 7

The division should establish a fee model for Occupational and Business License (OBL) and related fees that cover the existing gap between enforcement costs and revenue collected from OBL fees. This will ensure these regulatory activities do not divert funds from consumer services.

Our review shows a legislative history of tying regulation costs to regulated parties. Currently, there is an enforcement cost gap between revenue collected from OBL fees and the cost of enforcement. The current funding mechanism for the division's regulatory activities effectively diverts approximately \$2.1 million per year of enforcement costs from consumer services.

Consider Restructuring Occupational and Business License Fees to Reflect Relative Risk to Consumers.....page 9

The division should consider restructuring OBL fee amounts to reflect the relative risk to consumers. Setting fees based on the relative consumption of division resources would establish equity among the various types of businesses subject to division regulation.

Current OBL fee amounts do not reflect each business type's relative risk to consumers. Four business types – Dealers, Garages, Salesmen, and Driver Schools – represent the greatest disparity between enforcement costs and revenue collected. These four business types collectively consume about 90 percent of division non-emissions business enforcement resources. Moreover, these four business types account for almost \$2 million of the \$2.1 million enforcement cost gap.

Objective 2: Can the Compliance Enforcement Division More Efficiently Use Investigator Resources?

The division should establish criteria for Case Management System entries and monitor investigator productivity by establishing and evaluating performance measures as a means to more efficiently use investigator resources. Establishing performance measures will help identify areas for improvement and opportunities for reallocation of resources. Our review shows the state may be able to benefit by about \$1 million annually by more efficiently allocating investigator resources.

Establish Criteria for Coding Investigations into the CMS System.....page 14

The division should establish criteria for Case Management System (CMS) entries related to investigation time, actions, and outcomes. Establishing criteria for CMS entries will ensure data used for evaluation is complete, accurate, and consistently applied between North and South operations.

According to data drawn from CMS, investigator productivity, based on average hours devoted to investigation activities, has declined or remained low over the previous four years. Significant differences exist between the North and South on the amount of time it takes, on average, to complete an investigation for specific types of businesses.

The CMS is used to record all investigation activities; however, the division acknowledges some activities may not be recorded, such as court-related activities and training. The differences could result from not capturing investigator time or following procedures in the same way, or differences in efficiency.

Monitor Investigator Productivity to Identify Improvement Opportunities....page 14

The division should monitor investigator productivity by establishing and evaluating performance measures as a means to more efficiently use investigator resources. Establishing performance measures will help identify areas for improvement and opportunities for reallocation of resources. Our review shows the state may be able to benefit by about \$1 million annually by more efficiently allocating investigator resources.

Investigator productivity, based on average hours devoted to investigation activities, has declined or remained low over the previous four years. We estimate the underutilization to be \$421,000 per year for business and fraud regulation and \$209,000 per year for emissions regulation.

Significant differences exist between the North and South on the amount of time it takes, on average, to complete an investigation for specific types of businesses. Division data shows the South experiences a larger backlog of cases; however, there may be sufficient investigator resources to eliminate the backlog. The approximate performance variance of 44 percent potentially represents 5,400 hours, or \$207,000, per year in lost productivity; this could provide the estimated 1,800 hours needed to eliminate the case backlog in the South.

Additionally, our review showed significant variances between the North and South with regard to the percent of investigations that result in administrative fines. If the same

percentage of cases in the South resulted in fines as resulted in fines in the North, an additional \$45,000 in fiscal year 2013 would have been realized.

Appendix A.....page 19
Compliance Enforcement Division Response and Implementation Plan

Appendix B.....page 23
Timetable for Implementing Audit Recommendations

INTRODUCTION

At the direction of the Executive Branch Audit Committee, we conducted an audit of the Department of Motor Vehicles (department) Compliance Enforcement Division (division). Our audit addressed the following four questions:

- ✓ What is the division's role?
- ✓ What services must the division provide?
- ✓ Is the state the proper level of government to provide these services?
- ✓ If state government is the appropriate level of government, is the division carrying out its duties efficiently and effectively?

Our audit focused on whether revenue generated from Occupational and Business License fees covers the enforcement cost of those businesses and whether the division is efficiently using investigator resources.

Department's Role and Public Purpose

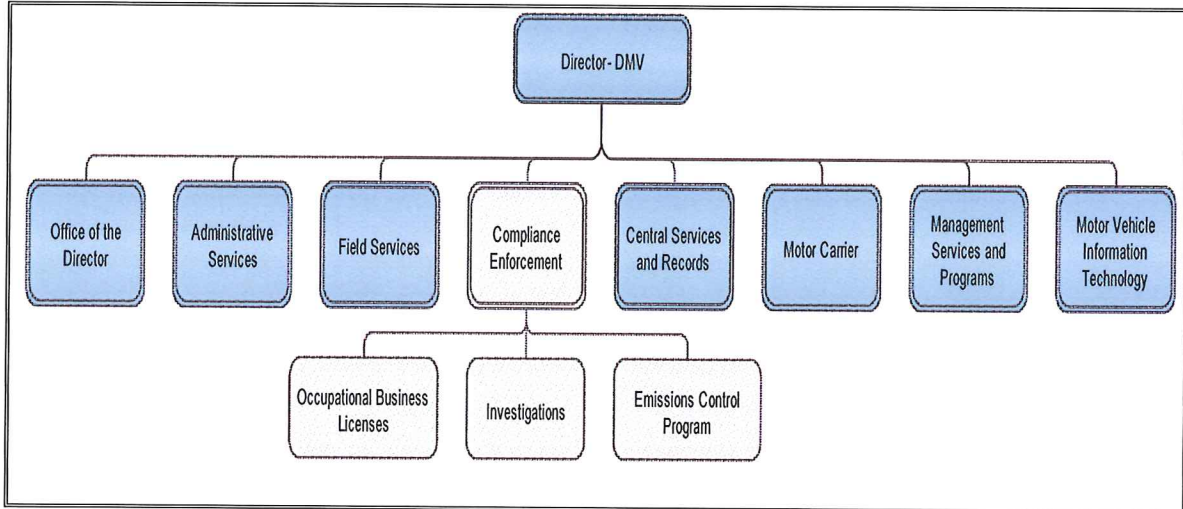
The department was established in 1957 to administer laws and regulations for drivers and vehicles using public roads. The department is a multi-functional agency responsible for:

- accurate collection and timely distribution of all Highway Fund revenues;
- improving traffic safety through licensing and registration;
- assisting the state in meeting federally mandated air quality standards;
- ensuring the integrity and privacy of record information; and
- protecting consumers and businesses against fraud and unfair business practices.

The department has eight divisions: Administrative Services, Field Services, Management Services and Programs, Central Services and Records, Motor Carrier, Motor Vehicle Information Technology, Compliance Enforcement, and the Office of the Director. See Exhibit I.

Exhibit I

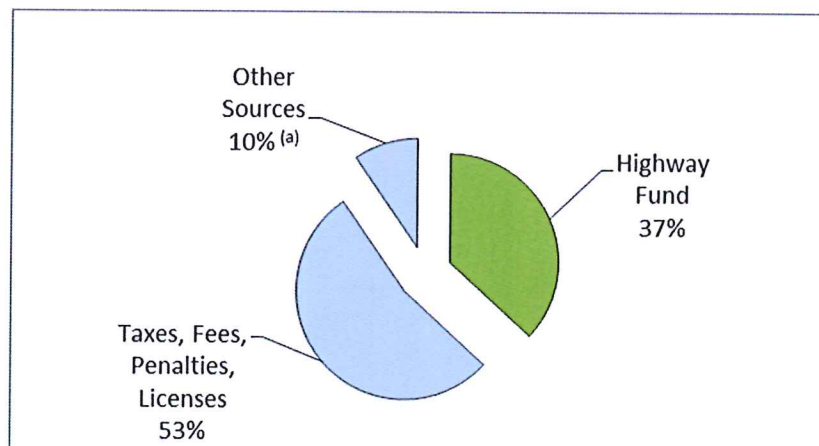
DMV Organizational Chart



The department was legislatively approved for 1,152 positions for fiscal year 2014. The department's approved budget for fiscal year 2014 was \$125 million. See Exhibit II for funding sources.

Exhibit II

Department Funding Sources for Fiscal Year 2014

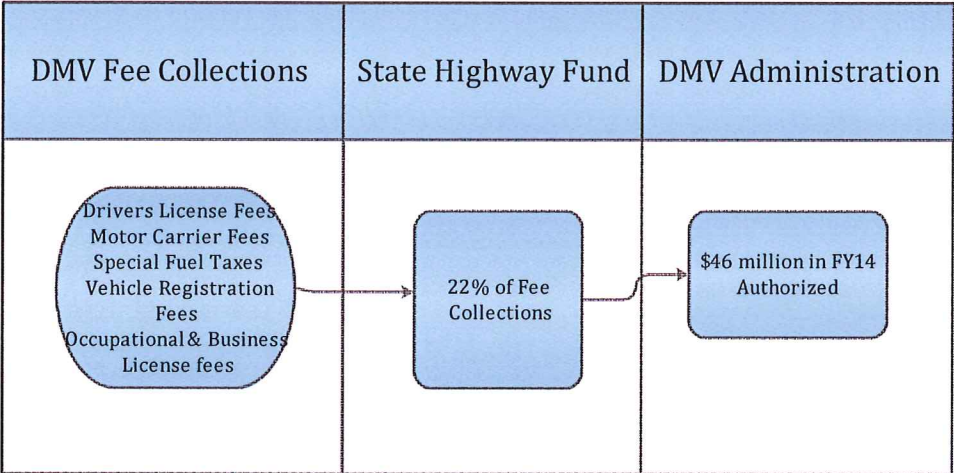


Note: (a) Other sources include Interagency Transfers, Federal Funds, General Fund, and Balance Forward

Per NRS 408.235, the department is limited to 22 percent of the funds it collects for the State Highway Fund, excluding gasoline taxes, for cost of administration. In fiscal year 2014, the department is legislatively authorized for \$46 million from fee collections. See Exhibit III.

Exhibit III

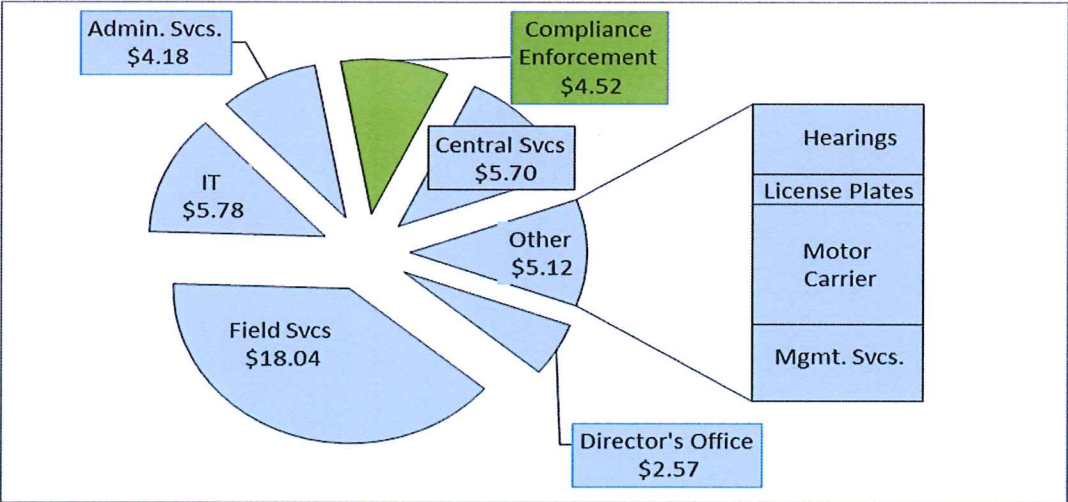
DMV/Highway Fund Interaction



For fiscal year 2014, the distribution of the Highway Fund authorization is shown in Exhibit IV.

Exhibit IV

Distribution by Division of Department Highway Fund Authorizations (Fiscal Year 2014 – in millions)



Per NRS 482, the division regulates certain business types in the motor vehicle industry, such as dealers, garages, and body shops. The division regulatory activities protect consumers by:

- responding to complaints from the driving public as they engage in transactions with businesses in the motor vehicle industry;
- inspecting facilities related to licensure; and
- investigating criminal behavior related to fraud.

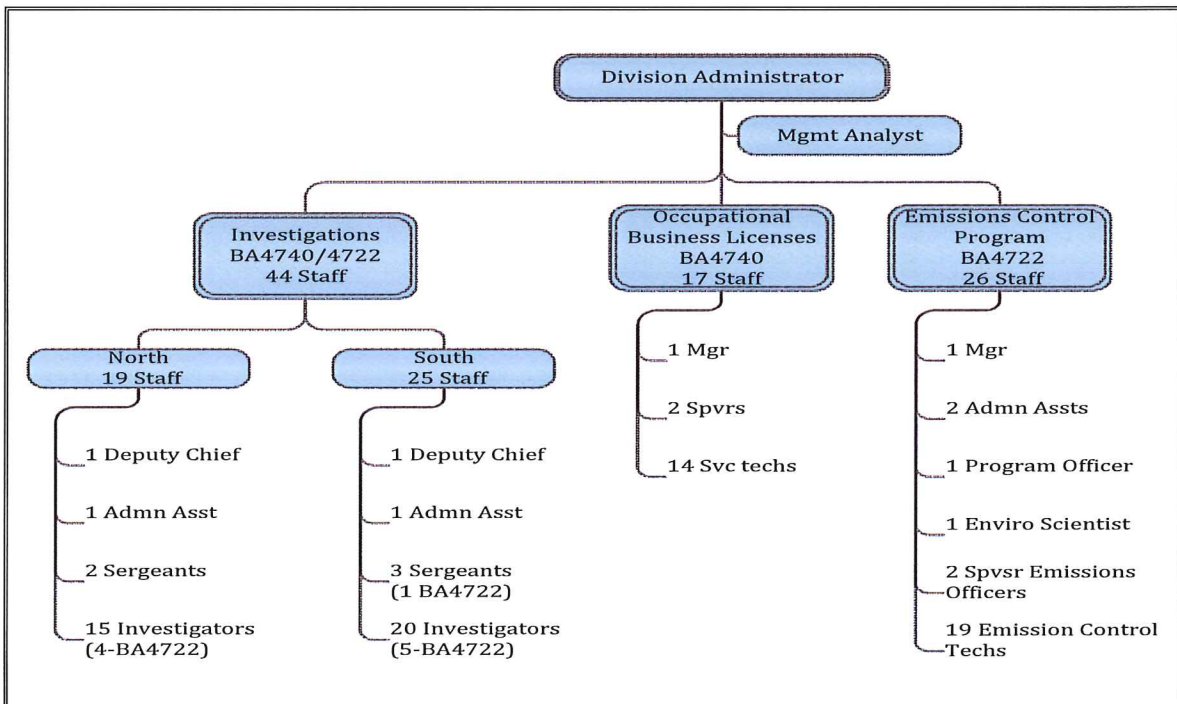
The division protects consumers through the licensing and regulation of occupations and businesses related to the manufacture, transport, sale, repair, and disposal of vehicles. The regulated businesses and occupations are licensed through the division prior to engaging in business activity and renewed periodically thereafter.

Per NRS 445B, the division also manages the Emissions Control Program. The activities of this program ensure vehicles in Clark and Washoe counties comply with Nevada’s laws and regulations pertaining to emission standards.

The division is organized into three sections: Investigations, Occupational Business Licenses, and the Emissions Control Program, as shown in Exhibit V.

Exhibit V

Division Organizational Structure



The division's activities are funded through two budget accounts:

- BA 4740 funding is provided through a Highway Fund authorization and funds regulation of motor-vehicle industry businesses and investigations related to individuals, such as theft or misuse of driver's licenses. The legislature approved \$4.73 million for FY14, 87 percent of which are personnel expenses.
- BA 4722 funding is provided exclusively by fees collected during the vehicle emissions testing process and funds regulation of pollution control (vehicle emissions), which includes training, licensing, inspecting, and investigating emission stations and technicians.

The state is the appropriate level of government to provide these services because they involve the safety of the general public. The department provides the public a single point of contact for driver, vehicle, and automobile industry regulation.

Scope and Objectives

We began audit work in January 2013. In the course of our audit, we interviewed officials and analyzed reports from the division and reviewed Nevada Revised Statutes. As part of our field work, we surveyed other states concerning compliance enforcement operations. We interviewed officials from other state and county agencies with related activities. We concluded field work and testing in March 2014.

Our audit focused on the following objectives:

- ✓ Does revenue from occupational and business license fees cover enforcement costs?
- ✓ Can the Compliance Enforcement Division more efficiently use investigator resources?

We performed our audit in accordance with the *Standards for the Professional Practice of Internal Auditing*.

The Division of Internal Audits expresses appreciation to the department's management and staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

Warren Lowman
Executive Branch Audit Manager

Jeff Landerfelt, MBA
Executive Branch Auditor

Compliance Enforcement Division Response and Implementation Plan

We provided draft copies of this report to department officials for their review and comments. The department's comments have been considered in the preparation of this report and are included in Appendix A. In its response, the department accepted our recommendations. Appendix B includes the department's timetable to implement our recommendations.

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

The following report contains our findings, conclusions, and recommendations.

Does Revenue from Occupational and Business License Fees Cover Enforcement Costs?

The division should consider restructuring Occupational and Business License (OBL) fees to ensure the revenue generated is sufficient to meet the cost of business enforcement and the fees reflect the risks posed to consumers. Restructuring OBL fees to meet these objectives will assign the enforcement costs in proportion to the resources regulated businesses require. This could benefit Nevada consumers by \$2.1 million annually.

Fees Do Not Cover Costs

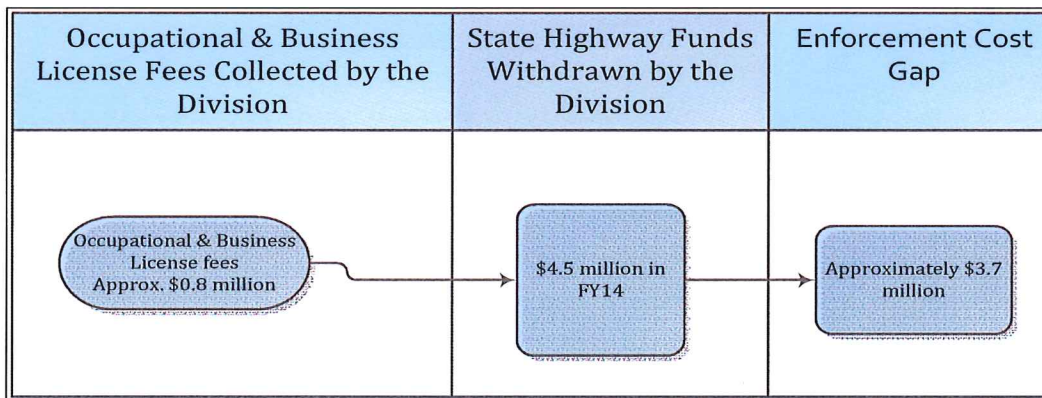
Revenue collected from OBL fees does not cover the cost of regulating motor-vehicle industry businesses. Currently, there is an enforcement cost gap between revenue collected from OBL fees and the cost of enforcement. The current funding mechanism for the division's regulatory activities effectively diverts approximately \$2.1 million per year of enforcement costs from consumer services.

Our review shows a legislative history of tying regulation costs to regulated parties. Revenues collected for other activities exceed their regulation costs, for example, gaming, fishing/hunting, and mining.

The division's reliance on Highway Funds for enforcing regulations exceeds its fee collections by approximately \$3.7 million. See Exhibit VI.

Exhibit VI

Highway Fund Collections and Division Withdrawals

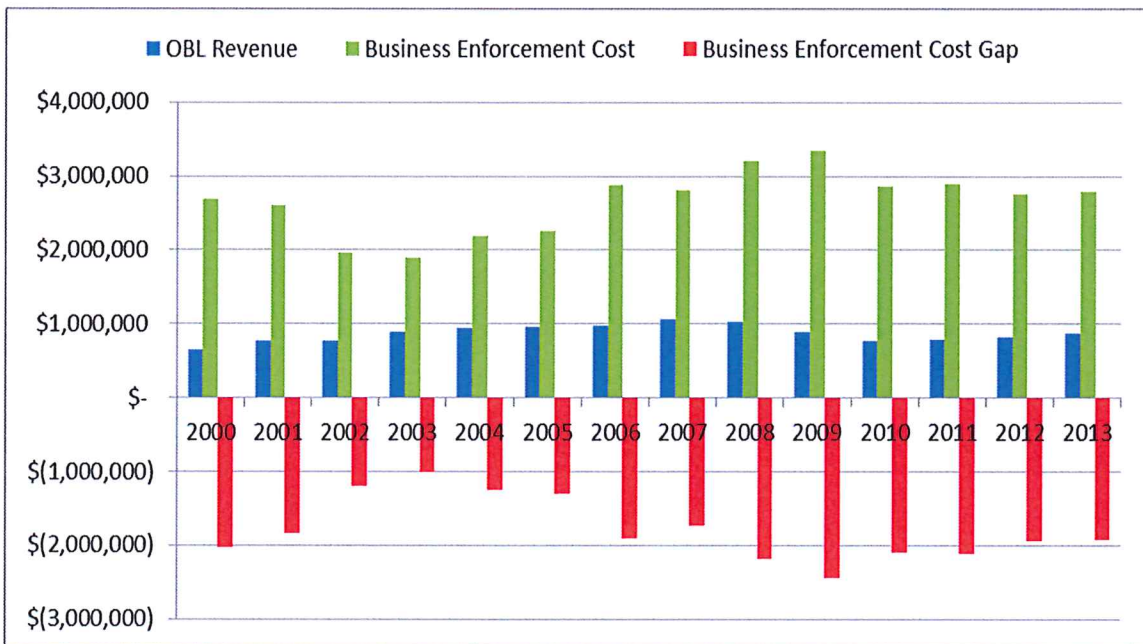


The division's enforcement hours devoted to business regulation have grown by about a third since 2009, from 55 percent to 71 percent in 2013. At the same growth rate, business enforcement will consume 91 percent of investigation resources by 2018.

Revenues from OBL fees have not been sufficient to cover the enforcement cost of regulating motor vehicle industry businesses since at least fiscal year 2000. For the five most recent years, the average annual business enforcement cost gap¹ is \$2.1 million. Exhibit VII shows the business enforcement cost gap since 2000.

Exhibit VII

Enforcement Cost Gap Fiscal Years 2000 – 2013



Revenue from OBL fees has remained roughly flat since 2000; however, enforcement costs have increased. This trend has resulted in diverting limited funds from other department services to cover business enforcement costs.

¹ To calculate business enforcement costs, BA 4740 annual amounts were adjusted to remove the cost of investigating individuals (Fraud Unit and facial recognition). The annual business enforcement cost gap = the actual business OBL revenue - the BA 4740 actual business enforcement cost.

Fee Amounts Do Not Reflect Risk to Consumers

The division should consider restructuring OBL fee amounts to reflect the relative risk to consumers. Current OBL fee amounts do not reflect each business type's relative risk to consumers. Risk to consumers is determined by the amount of investigator resources devoted to enforcement activities of each business type. Restructuring fee amounts to reflect the risk to consumers would ensure enforcement costs are appropriately assigned to businesses.

Annual License Fees Have Not Changed, On Average, for 25 Years

Current annual license renewal fees range from \$10 to \$300 and while most renewal fees are the same as the initial license fee, some are less. We noted fees varied for no discernible reason. The division was unable to provide a basis for the fee structure as well. On average, 25 years have elapsed since the fees were originally set or last adjusted. See Exhibit VIII.

Exhibit VIII

Fees by Business Type

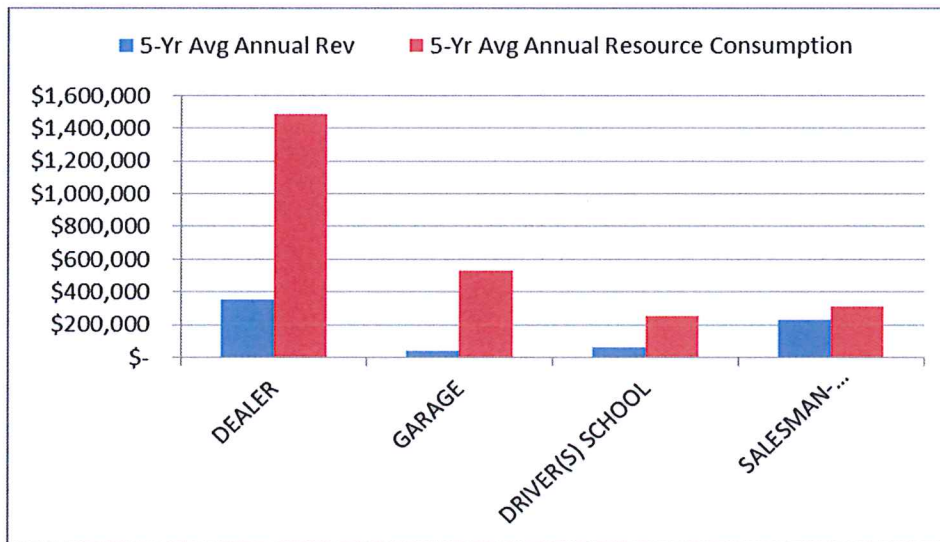
Business Type	Current Fee		Fee Modification	
	Initial	Renew	Yr Fee Set or Last Modified	Elapsed Yrs
Driver Training School Instructor	\$10	\$10	1961	53
Garage	\$25	\$25	1997	17
Salesperson	\$75	\$40	1993	21
Alcohol & Substance Abuse School Instructor	\$50	\$50	1991	23
Traffic Safety School Instructor	\$50	\$50	1991	23
Driver Training School	\$50	\$50	1961	53
Vehicle Transporter	\$100	\$50	1987	27
Dealer/Mfg/Dist/Rebuilder	\$125	\$50	1983	31
Broker	\$125	\$50	1995	19
Lessor - Long Term	\$125	\$50	1983	31
Lessor - Short Term	\$125	\$50	1997	17
OHV Dealer/Mfg/ST Lessor	\$125	\$50	2009	5
Alcohol & Substance Abuse School	\$250	\$250	1991	23
Traffic Safety School	\$250	\$250	1991	23
Wrecker	\$300	\$300	1987	27
Salvage Pool	\$300	\$300	1987	27
Body Shop	\$300	\$300	1987	27
Body Shop - Class A	\$300	\$300	2007	7
			Avg Yrs Elapsed	25

Resources and Revenues Show a Disparity by Business Type

Four business types – Dealers, Garages, Salesmen, and Driver Schools – represent the greatest disparity between division resources expended and revenue collected.² These four business types collectively consume about 90 percent of division non-emissions enforcement resources. See Exhibit IX.

Exhibit IX

Top 4 Enforcement Cost Gap Contributors



Moreover, these four business types account for almost \$2 million of the \$2.1 million enforcement cost gap. See Exhibit X.

² Includes all sources of revenue, such as license fees, fines, business plates, ID cards, and exhibit fees.

Exhibit X

Enforcement Cost Gap Distribution by Business Type

Business Type	5-Yr Avg Resource Consumption Rate	5-Yr Avg Annual Rev	5-Yr Avg Annual Resource Consumption	Business Enforcement Cost Gap
DEALER	52.10%	\$ 352,711	\$ 1,529,360	\$ (1,176,649)
GARAGE LICENSE	18.67%	\$ 39,615	\$ 547,992	\$ (508,377)
SALESMAN-OCCUPATIONAL LICENSE	10.98%	\$ 230,686	\$ 322,236	\$ (91,549)
DRIVER(S) SCHOOL	8.75%	\$ 60,957	\$ 256,717	\$ (195,759)
BODY SHOP	3.18%	\$ 102,185	\$ 93,446	\$ 8,739
OTHER BUSINESS ^(a)	2.45%	\$ -	\$ 71,921	\$ (71,921)
WRECKER	2.22%	\$ 22,500	\$ 65,118	\$ (42,618)
SHORT-TERM LESSORS	0.63%	\$ -	\$ 18,396	\$ (18,396)
OHV DEALER ^(b)	0.28%	\$ 8,350	\$ 8,116	\$ 234
DISTRIBUTOR	0.26%	\$ 30	\$ 7,615	\$ (7,585)
AUTO BROKER	0.24%	\$ 657	\$ 6,954	\$ (6,297)
MANUFACTURER	0.12%	\$ 883	\$ 3,660	\$ (2,777)
SALVAGE POOL	0.07%	\$ 2,395	\$ 2,168	\$ 228
REBUILDER	0.07%	\$ 775	\$ 1,952	\$ (1,177)
TRANSPORTER	0.00%	\$ 7,099	\$ -	\$ 7,099
Total	100.00%	\$ 828,845	\$ 2,935,651	\$ (2,106,806)

Notes: (a) Other Business includes investigation activity related to private non-licensee businesses, such as a financial institutions or insurance companies; (b) OHV Dealer license requirement become effective July 1, 2013; the Enforcement Cost Gap is based on 1 year of revenue and cost data.

Fees Have Been Historically Tied to Costs

Several of the statutes enacting motor-vehicle industry business licenses reference the fees are set for “the regulation of” the respective business. In the case of Salvage Pools, Wreckers, and Body Shops, a special revenue account was originally established and later rolled into the Motor Vehicle Fund.³ Diverting funds from consumer services to subsidize enforcement costs is a departure from the legislative history of tying regulation costs to the regulated parties.

Setting fees based on the relative consumption of division resources would establish equity among the various types of businesses subject to division regulation. If fees were adjusted to eliminate the enforcement cost gap for each business type, the fees for most categories would be increased. See Exhibit XI.

³ The Motor Vehicle Fund is an agency fund into which all money received or collected by the department must be deposited before being transferred into the State Highway Fund, after allowed departmental withholdings.

Exhibit XI

Revenue Adjustments Needed for Cost Burden Equity

Business Type	Business Enforcement Cost Gap	# of Businesses as of August 2013	Per Licensee Revenue Adjustment Needed to Cover Cost
DEALER	\$ (1,176,649)	1,118	\$ 1,052
GARAGE LICENSE	\$ (508,377)	1,531	\$ 332
DRIVER(S) SCHOOL	\$ (195,760)	165	\$ 1,186
SALESMAN-OCCUPATIONAL LICENSE	\$ (91,550)	4,870	\$ 19
OTHER BUSINESS ^(a)	\$ (71,921)		
WRECKER	\$ (42,618)	64	\$ 666
SHORT-TERM LESSOR	\$ (18,396)	384	\$ 48
DISTRIBUTOR	\$ (7,585)	0	
AUTO BROKER	\$ (6,297)	8	\$ 787
MANUFACTURER	\$ (2,777)	14	\$ 198
REBUILDER	\$ (1,177)	12	\$ 98
OHV DEALER ^(b)	\$ 234	55	
SALVAGE POOL	\$ 227	6	
TRANSPORTER	\$ 7,099	7	
BODY SHOP	\$ 8,739	284	
Average Annual Enforcement Cost Gap	\$ (2,106,806)		

Note: (a) Other Business includes investigation activity related to private non-licensee businesses such as financial institutions or insurance companies; (b) OHV Dealer license requirement became effective July 1, 2013; the Enforcement Cost Gap is based on 1 year of revenue and cost data.

Alternate methods could also be considered, such as a fee for service model, thereby assigning additional cost only to those businesses within each type that require the most investigator attention.

Recommendations

1. Consider establishing a fee model for Occupational and Business Licenses and related fees that cover the costs of enforcing regulations.
2. Consider restructuring Occupational and Business License fees to reflect relative risk to consumers.

Exhibit XII

Changing Fee Structure to Cover Enforcement Costs Estimated Benefits

Recommendation	Benefit
1. Establishing a fee model that covers enforcement costs	\$2,107,000
2. Restructuring fees to reflect relative risk to consumers	Gap Equity
Total	\$2,107,000

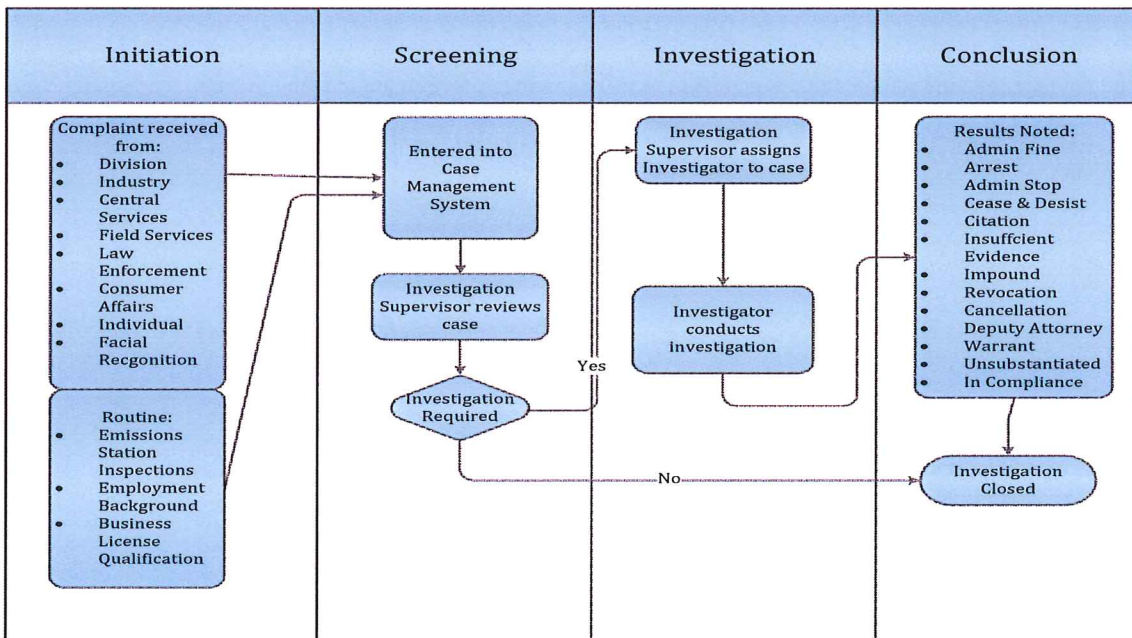
Can the Compliance Enforcement Division More Efficiently Use Investigator Resources?

The division should establish criteria for Case Management System entries and monitor investigator productivity by establishing and evaluating performance measures as a means to more efficiently use investigator resources. Establishing performance measures will help identify areas for improvement and opportunities for reallocation of resources. Our review shows the state may be able to benefit by about \$1 million annually by more efficiently allocating investigator resources.

The investigation process is primarily complaint driven. Some investigations, however, are routine as specified in regulations, such as emission stations, pre-licensing reviews, or in conjunction with pre-employment background checks. Other investigations may be random, such as roadside testing of emissions in the Heavy Duty Diesel program. See Exhibit XIII.

Exhibit XIII

Investigation Process



The department can improve efficiency by more closely monitoring investigator resources. Our review of division data indicates there may be opportunities for performance improvement in some key investigation areas. We found a declining

trend in hours devoted to investigations and significant variances between North and South in investigation hours and cases resulting in administrative fines.

Hours Devoted to Investigations Declining

The Case Management System (CMS) is used to record all investigation related activities; however, the division acknowledges some activities may not be recorded, such as court-related activities and training. According to data drawn from CMS, investigator productivity, based on average hours devoted to investigation activities, has declined or remained low over the previous four years. The four-year trends, which exclude time allowed for annual leave, sick leave, holidays, and furloughs, are shown below in Exhibit XIV.

Exhibit XIV

Average Investigator Productivity



Assuming an 85 percent standard, we estimate the underutilization to be \$421,000⁴ per year for business and fraud regulation and \$209,000⁵ per year for emissions regulation.

⁴ 45% (85% optimal productivity – 2013 productivity of 40%) x \$40,526 (Avg. midpoint salary of Investigator I & II) x 23.1 investigators (10 North and 13.1 South in fy 2013) = \$421,268.

⁵ 55% (85% optimal productivity – 2013 productivity of 30%) x \$40,526 (Avg. midpoint salary of Investigator I & II) x 9.4 investigators (4 North and 5.4 South in fy 2013) = \$208,519.

Investigation Hours Vary between North and South

Significant differences exist between the North and South on the amount of time it takes, on average, to complete an investigation for specific types of businesses. The division reported both North and South use the same procedures during investigations; however, the data shows it takes longer to complete investigations in the South. The differences could result from not capturing investigator time or following procedures in the same way, or differences in efficiency.

Body Shops, Dealers, Garages, and Salesmen accounted for approximately 88 percent of business related investigation hours in fiscal years 2012 and 2013. Average hours per investigation, by type, are presented below in Exhibit XV.

Exhibit XV

Investigation Hour Variances: North and South

Hour Variances based on Fiscal Years 2012 & 2013					
North	Body Shop	Dealer	Garage	Salesperson	Total
Hours	185	4,290	1,504	866	6,844
Investigations	58	1,036	384	215	1,693
Avg Hrs Per Inv	3.2	4.1	3.9	4.0	4.0
South					
Hours	655	9,094	3,332	2,711	15,792
Investigations	138	1,272	773	531	2,714
Avg Hrs Per Inv	4.7	7.1	4.3	5.1	5.8
Variance (Hrs)	-1.6	-3.0	-0.4	-1.1	-1.8
Variance (Pct)	49.1%	72.7%	10.1%	26.8%	43.9%

Case Backlogs Vary between North and South

Division data shows the South experiences a larger backlog of cases. In September 2013, there were 456 in the South and 135 in the North. However, there may be sufficient investigator resources in the South to eliminate the backlog. The approximate performance variance of 44 percent potentially represents 5,400 hours, which equates to \$207,000⁶ per year in lost productivity. Completing investigations in 4.0 hours would yield sufficient hours to eliminate

⁶ 26 investigators x \$40,500/yr. salary = \$1,053,676 divided by 27,500 investigation hours = \$38.31 cost per investigation hour. 1.8 hours variance per investigation x 3,000 investigations per year in the South = 5,400 potentially lost hours x \$38.31 = \$206,904/yr.

the case backlog in the South,⁷ with approximately 3,600 additional hours remaining.

Fines Resulting from Investigations Vary between North and South

Our review showed significant variances between the North and South with regard to the percent of investigations that result in administrative fines. This remained the case whether looking at administrative fines issued for all cases, or just those issued for business licensee related investigations. See Exhibit XVI.

Exhibit XVI

Percent of Cases Resulting in an Administrative Fine: North and South

	All		Business Only	
	FY12	Fy13	FY12	Fy13
North	15.1	19.0	7.8	13.9
South	3.0	2.4	1.1	0.6

Administrative fines currently represent approximately \$42,000⁸ per year in revenue for the division. Ninety-seven percent of all fines issued in fiscal years 2012 and 2013 were issued in the North. The average fine during this period was approximately \$100. If the same percentage of cases in the South resulted in fines as resulted in fines in the North, an additional \$45,000⁹ in FY 2013 would have been realized.

Recommendation

3. Establish criteria for coding investigation time, actions, and outcomes into the CMS system to ensure completeness, accuracy, and consistency between North and South operations.

⁷ 456 cases as of September 20, 2013. (456 x 4.0 hr. Avg. = 1,824 hrs.). 5,400 potentially lost hours - 1,824 hours to address backlog cases = 3,576 hours remaining.

⁸ 5-yr average.

⁹ 19.0% North fine rate minus 2.4% South fine rate = 16.6% difference x 2,711 South cases in FY13 = 450 fines x \$100 average fine = \$45,000.

4. Monitor investigator productivity to identify improvement opportunities by:
 - a) Establishing performance measurements based on CMS data that contrast investigator utilization, efficiency, and outcomes; and,
 - b) Evaluating performance measurements on a periodic basis to ensure consistent application of division procedures.

Exhibit XVII

Increasing Productivity Estimated Benefits

Recommendation	Benefit
3. Establish criteria for coding time, actions, & outcomes into CMS.	Reliable Data
4. Increasing productivity through monitoring performance data:	
Underutilization	\$630,000
Hours Variance	\$207,000
Fines Variance	\$45,000
Total	\$882,000

Appendix A

Compliance Enforcement Division Response and Implementation Plan

Brian Sandoval
Governor



Troy Dillard
Director

555 Wright Way
Carson City, Nevada 89711-0900
Telephone (775) 684-4368
www.dmvnv.com

May 12, 2014

Steve Weinberger, Administrator
Department of Administration
Internal Audits Division, Room 302
209 East Musser Street
Carson City, Nevada 89701

Dear Mr. Weinberger,

Thank you for the opportunity to respond to your audit of the Department of Motor Vehicles (DMV) Compliance Enforcement Division (CED). DMV values the time and attention your office has devoted to reviewing the operations of CED. Measuring performance is crucial for identifying what agencies are doing well and where greater work and attention is needed. Accordingly, your office has provided a number of findings that will prompt CED to evaluate our management practices. In fact, before the start of your office's examination CED identified a number of operational concerns that relate to the recommendations in the audit. Consequently, we began the process of evaluating and changing our performance model. We sincerely believe that many of the anticipated changes in our operational processes will address several of the recommendations made within the audit report.

Recommendation #1

Consider establishing a fee model for Occupational and Business Licenses and related fees that recover the costs of enforcing regulations.

Agency Response

DMV concurs with the recommendation to establish a fee model for Occupational and Business Licenses that cover the costs of enforcing regulations. DMV will evaluate the methodology for assessing fees to ensure equitability and fairness to all business. Alternative methodologies will be considered contingent upon the support of the State Legislature. DMV acknowledges that business stakeholders would be impacted by the increase in fees.

Recommendation #2

Consider restructuring Occupational and Business License fees to reflect relative risk to consumers.

Agency Response:

The Department agrees with the recommendation to restructure Occupational and Business License (OBL) fees to reflect relative risk to consumers. However, statutory authority for the imposition of

fees and charges exists with the Nevada State Legislature. CED has reviewed the data to establish and/or confirm the following:

- The tasks required to complete each regulatory activity.
- The time required to complete each activity.
- Staff expertise required to complete each task and their respective fees should be developed based on this information.
- OBL fees reflect the cost of providing the service, and
- Fees are efficient and cost-effective.

To sum up, the fees and charges should be designed to recover the actual costs of undertaking regulatory activities. A formal cost recovery strategy should be implemented to improve the consistency; transparency and accountability of the OBL cost and to promote the efficient allocation of resources. The underlying principles of the risk to consumers should include fees to recover the costs of services.

Recommendation #3

Establish criteria for coding investigation time, actions, and outcomes into the Case Management System (CMS) system to ensure completeness, accuracy, and consistency between North and South operations.

Agency Response

DMV supports and agrees with the recommendation to establish criteria for coding investigation time, actions, and outcomes into the CMS to ensure completeness, accuracy, and consistency between the northern and southern operations. In fact, before the start of the audit proceeding, CED identified the CMS as a performance management concern that needed to be addressed.

In 2013, CED secured funding and purchased a new CMS. The new system contains features that are extremely helpful with investigations and allow for fast statistical compilation of mandatory reporting requirements. I-Sight is a web based investigative software that makes it easier for employees / investigators to collaborate on investigations, manage case workflow and avoid cases from falling through the cracks. I-Sight will improve the efficiency of existing resources through adaptive case management. The I-Sight case management system is currently in the process of being deployed. Full implementation and employee training for the new case management system should be completed within 12 months. Benefits of the new system include;

- Centralized Case Information
- Track & Report Case-Related Expenses
- Management of Key Dates & Milestones
- Storage for Electronic & Physical Exhibits
- Generate Investigation Reports Automatically

Additionally, the following protocol will be implemented immediately.

- Insure investigators are documenting all time devoted to a case including the hours related to the case after it is closed.

- Monitor special assignments of investigators and how their time spent on assignments affects their regular assigned duties.
- Management and front line supervisors will closely track individual investigators to insure they are working on their primary duties.

Recommendation #4

Monitor investigator productivity to identify improvement opportunities by:

- a) Establishing performance measurements based on CMS data that contrast investigator utilization, efficiency, and outcomes; and,
- b) Evaluating performance measurements on a periodic basis to ensure consistent application of division procedures.

Agency Response

DMV agrees to the recommendation to monitor investigator productivity to identify improvement opportunities. In fact, in December 2012, DMV created a strategic plan and implemented performance measures to address Governor Brian Sandoval's Strategic Priorities. The new case management system will allow management and front line supervisors to evaluate CED performance measurements on a periodic basis to ensure consistent application of division procedures.

PERFORMANCE MEASURES GOALS & OUTCOMES

Outcomes/Fiscal Year
Emission Control:
Percentage of covert audits in Washoe and Clark Counties which result in violation, revocation or fine for non-compliance.
Percentage of emission exemptions investigated yearly (Evaders).
Percentage of Heavy Duty Diesel (HDD) vehicles cited following opacity testing for smoke emissions.
Percent of customers rating the <i>Emission Control Program</i> as good or excellent.
Fraud Investigation:
Percentages of facial recognition investigations that identify fraudulent activities.
Percentages of licenses suspended or cancelled as a result of fraud investigations.
Percent of customers rating their resolution with <i>Fraud Investigative Services</i> as good or excellent.
Regulation of Auto Industry:
Percentage Occupational Business Licensing (OBL) transactions completed via alternative services (online).
Percentage of violations <i>adjudicated</i> by the Hearing Office that results in affirmed decisions concerning the Divisions intended action.
Percent of customers rating the <i>Regulation of the Auto Industry</i> as good or excellent.

To conclude, DMV appreciates the opportunity to respond to the audit report and recognizes the value of researching our processes along with the importance of the recommendations. The focus of the audit is whether revenue generated from Occupational and Business License fees covers the enforcement cost for the businesses and whether the division's investigator resources are optimally

CED Audit Response
May 12, 2014
Page 4

used. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on your audit objectives. We look forward to implementing and addressing the recommended changes. Again, we would like to thank you and your staff for the time and attention given to this important responsibility.

Sincerely,



Donnie Perry, Administrator
Compliance Enforcement Division
Nevada Department of Motor Vehicles

Appendix B

Timetable for Implementing Audit Recommendations

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

Category 2: Recommendations with an anticipated implementation period exceeding six months.

<u>Recommendations</u>	<u>Time Frame</u>
1. Consider establishing a fee model for Occupational and Business Licenses and related fees that cover the costs of enforcing regulations. (page 12)	July 2015
2. Consider restructuring Occupational and Business License fees to reflect relative risk to consumers. (page 12)	July 2015
3. Establish criteria for coding investigation time, actions, and outcomes into the CMS system to ensure completeness, accuracy, and consistency between North and South operations. (page 17)	Jun 2015
4. Monitor investigator productivity to identify improvement opportunities by: a) Establishing performance measurements based on CMS data that contrast investigator utilization, efficiency, and outcomes; and, b) Evaluating performance measurements on a periodic basis to ensure consistent application of division procedures. (page 18)	Jun 2015



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