

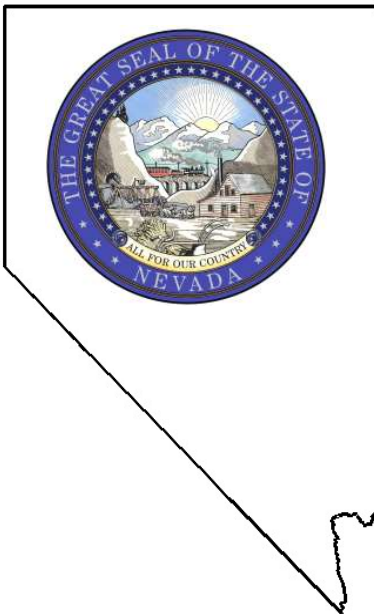
STATE OF NEVADA

Performance Audit

Nevada Department of Transportation

Stockroom Purchases, Material Stockpile
Management, and Mechanic Productivity

2024



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Nevada Department of Transportation, Stockroom Purchases, Material Stockpile Management, and Mechanic Productivity issued on January 16, 2025.

Legislative Auditor report # LA26-02.

Background

The Nevada Department of Transportation (NDOT) oversees the planning, construction, operation, and maintenance of 5,400 miles of highway and over 1,000 bridges. Additionally, NDOT maintains a fleet of over 2,000 pieces of heavy equipment and 700 vehicles.

The mission of NDOT is to provide, operate, and preserve a transportation system that enhances safety, quality of life, and economic development through innovation, environmental stewardship, and a dedicated workforce.

NDOT is comprised of four primary divisions: Administration, Engineering, Operations, and Planning.

NDOT has equipment repair shops and stockrooms in each district. Equipment repair shops maintain NDOT's fleet by performing preventative maintenance, repairs, and services for heavy equipment and vehicles.

The stockrooms have purchasing authority and act as a supply center for the district equipment repair shops, maintenance crews, and other NDOT divisions operating in the district.

Purpose of Audit

The purpose of the audit was to determine whether NDOT has effective controls over stockroom purchases, equipment repair shop work, and material stockpiles. Additionally, we determined if management's use of state vehicles is appropriate.

The audit focused on NDOT's activities between January 2022 and June 2023, and through calendar year 2023 for certain activities.

Audit Recommendations

This audit report contains 10 recommendations to improve controls over NDOT assets and resources.

NDOT accepted the 10 recommendations.

Recommendation Status

NDOT's 60-day plan for corrective action is due on April 14, 2025. In addition, the 6-month report on the status of audit recommendations is due on October 14, 2025.

Stockroom Purchases, Material Stockpile Management and Mechanic Productivity

Nevada Department of Transportation

Summary

NDOT continues to experience problems developing and implementing controls to safeguard assets and deter or detect fraud. Specifically, we observed purchasing controls designed to ensure the proper approval and accounting for vehicle and equipment parts were often circumvented and not effective. The proper recording and tracking of parts can also improve. In addition, deficiencies persist in how NDOT safeguards material stockpiles. Although we did not identify fraud during our audit work, given NDOT's history of fraud incidents, strong controls are needed in these areas as millions of dollars in parts and materials are purchased every year.

Low productivity rates at some equipment repair shops highlighted procedural inefficiencies. Specifically, we observed significant variations in productivity between equipment repair shops, with low productivity recorded for several shops. For example, an analysis of shop records found mechanics at one location recorded an average of 2 hours a day working on NDOT vehicles. Furthermore, we observed the inappropriate use of state resources as unnecessary modifications were made to a vehicle and another vehicle was driven almost entirely for personal use. Low productivity and improper use of state resources results in waste and increased costs to the State as mechanics are being paid for duties they are not performing. In addition, fleet costs will increase if vehicle repairs or routine maintenance are not performed timely and routine maintenance is outsourced to vendors.

Key Findings

Controls designed to detect and deter fraud are not fully implemented or enforced. Of the 150 transactions tested, 57 (38%) did not have documentation demonstrating appropriate approvals, or proper separation of duties. In addition, many requisition signatures by NDOT staff were not legible and purchases were made before proper authorization occurred. Furthermore, stockroom staff split purchases to avoid purchasing limits. For 8 of 20 (40%) purchases tested, the same items were procured from the same vendor on the same day, using different invoices. (page 8)

Testing of 41 tire invoices, totaling \$25,000, found they were not accounted for in NDOT's asset management system. Sixteen tires were not on the vehicles identified on the invoices. For example, one invoice contained a purchase for two semitrailer tires, but the unit referenced on the invoice was a passenger car. (page 10)

Equipment repair shop supervisors do not consistently perform quality assurance program inspections of vehicles, which are designed specifically to detect and deter fraud. Four of nine equipment repair shops did not perform any inspections in calendar year 2022. Inspections are designed to ensure parts purchased are installed on a vehicle, and to ensure the quality of work. (page 10)

NDOT has weak controls over material stockpiles and related data, which lead to significant discrepancies between physical inventory counts and records. There were nearly \$25 million in discrepancies between NDOT's records and physical inventory records in fiscal year 2023. Stockpile records are not accurate due to weaknesses in recording purchases and the use of materials. For five of six (83%) material stockpile purchases tested, the correct quantities were not entered into NDOT's material tracking system. In addition, different methods are used to calculate the use of materials and the quantity remaining. Furthermore, NDOT does not properly control the use of stockpile materials by non-state entities. These issues have contributed to qualified opinions in the State of Nevada Single Audit Report for fiscal years 2020, 2021, and 2022. (page 12)

Productivity at equipment repair shops varied significantly between locations and in many cases was below NDOT's standard. For example, one shop recorded less than 27% of work hours, or 2 hours a day to work orders. According to NDOT audit reports, the standard is that 80% of hours should be applied directly to work orders. Low productivity results in waste and increased costs to the State as mechanics are being paid for duties they are not performing and routine maintenance is not performed or is outsourced to vendors. (page 15)

During our audit, we observed instances where the use of NDOT resources benefited the employees more than the interests of the State. Specifically, state vehicles were modified or used for the benefit of state employees. Based on our review of available documentation, we estimate the benefits to the employees to be about \$25,000. (page 17)

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

This report includes 10 recommendations to improve controls over NDOT's assets and resources. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

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

Daniel L. Crossman, CPA
Legislative Auditor

December 20, 2024
Carson City, Nevada

Stockroom Purchases, Material Stockpile Management, and Mechanic Productivity

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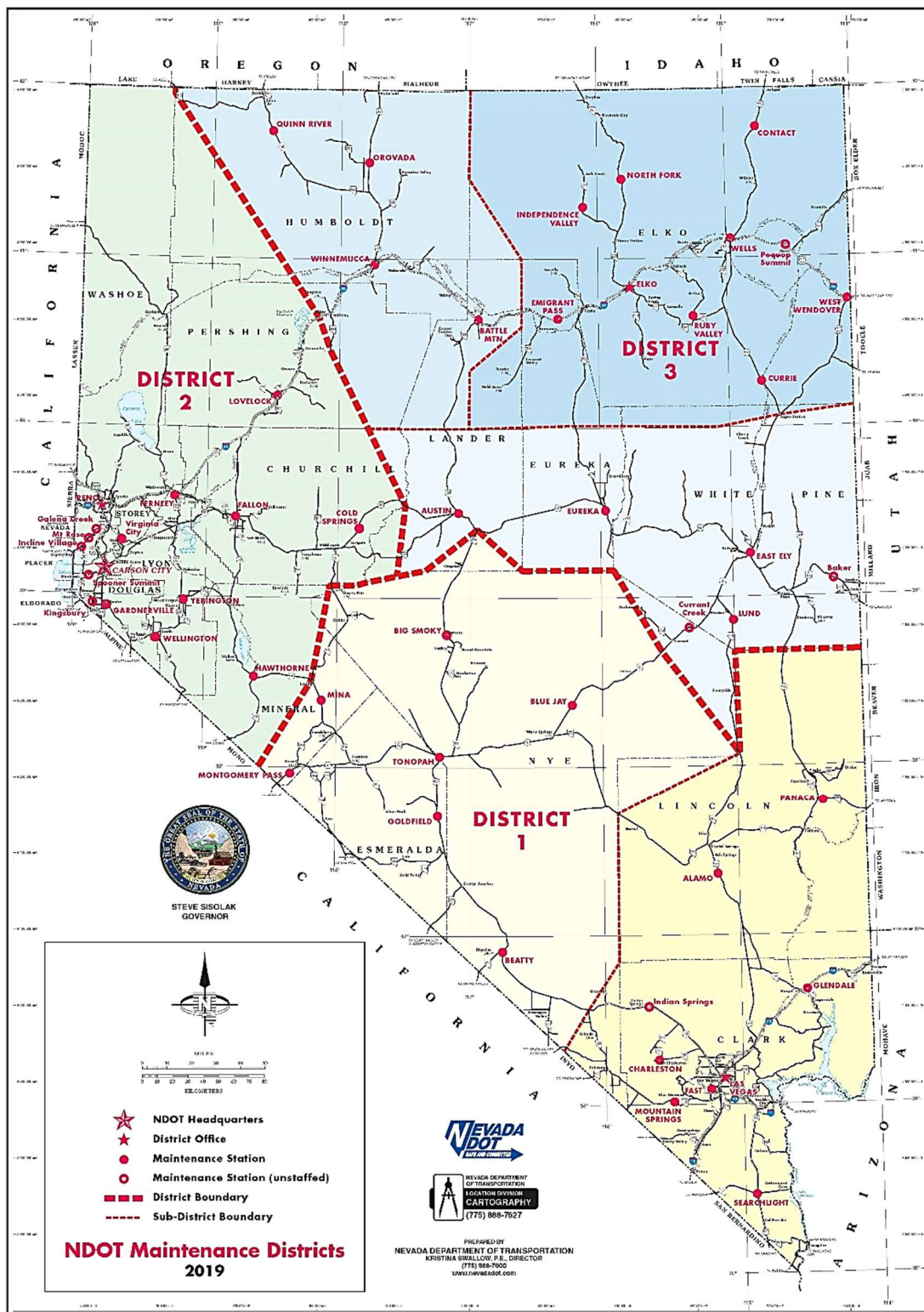
Introduction

Background

The Nevada Department of Transportation (NDOT) oversees the planning, construction, operation, and maintenance of 5,400 miles of highway and over 1,000 bridges. Additionally, NDOT maintains a fleet of over 2,000 pieces of heavy equipment and 700 vehicles. The mission of NDOT is to provide, operate, and preserve a transportation system that enhances safety, quality of life, and economic development through innovation, environmental stewardship, and a dedicated workforce. NDOT is comprised of four primary divisions: Administration, Engineering, Operations, and Planning. Under the four primary divisions, there are 32 secondary divisions. The Equipment Division, Materials Division, and Maintenance and Asset Management Division, which are the primary focus of this audit, fall under the Operations Division. NDOT is divided into three districts based on geography and districts supervise state transportation activities within their local areas. Exhibit 1 shows the locations of the districts.

NDOT District Locations

Exhibit 1



Source: NDOT.

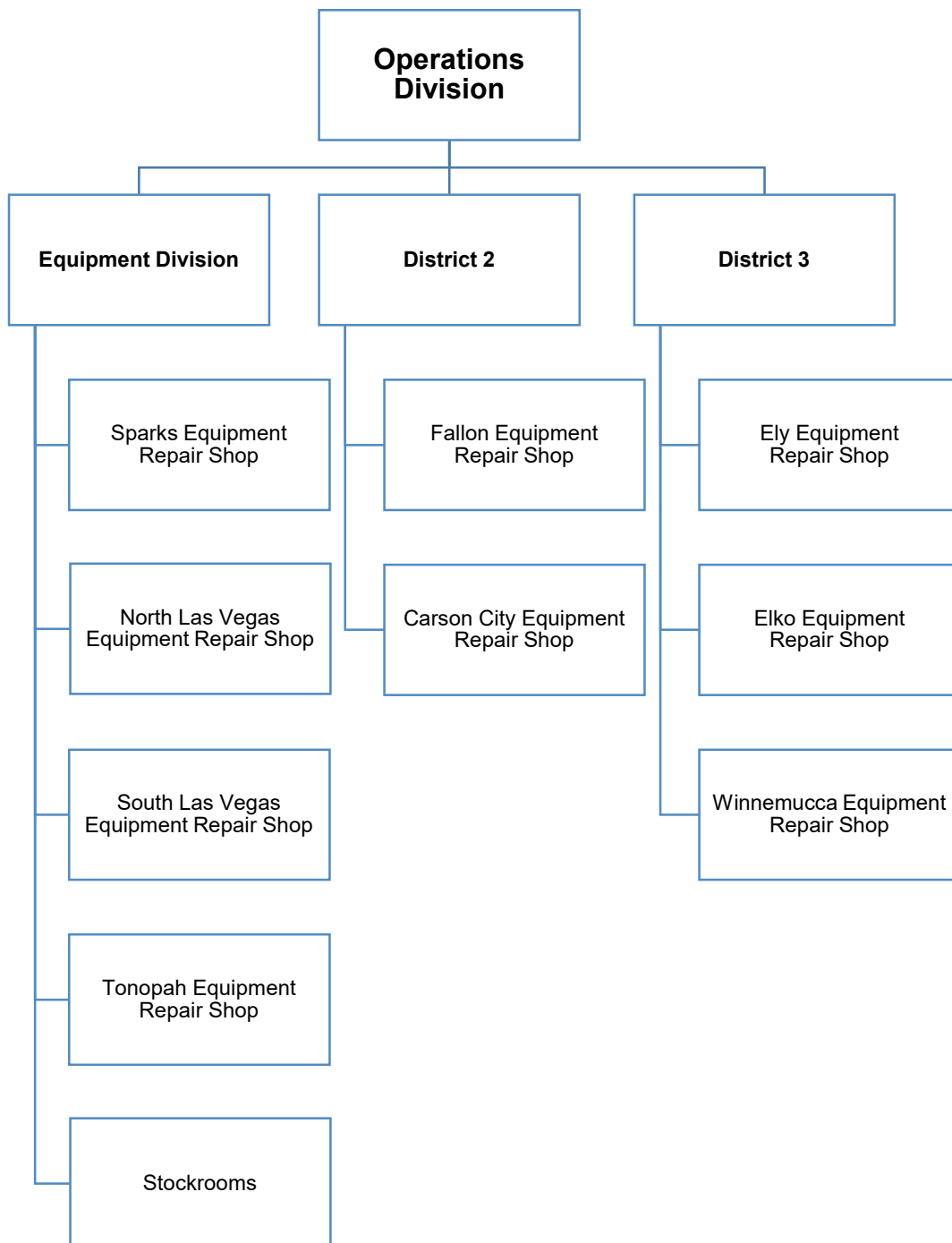
Stockroom and Equipment Repair Shop Structure

NDOT has equipment repair shops and stockrooms in each district. Equipment repair shops maintain NDOT's fleet by performing preventative maintenance, repairs, and services for heavy equipment and vehicles. Stockrooms have purchasing authority and act as a supply center for district equipment repair shops, maintenance crews, and other NDOT units operating in the district. Historically, districts have had full management responsibility for all day-to-day activities of the district, including equipment repair shops. The exception being the Equipment Division has historically overseen the equipment repair shop in Sparks.

In the last few years, NDOT has made changes as a result of stockroom and district staff bypassing the Equipment Division's controls as well as staffing challenges. The Equipment Division assumed control of the Fallon and Carson City stockrooms in September 2022. NDOT transferred the Tonopah and North Las Vegas stockrooms in October 2023, and the remaining stockrooms in Elko, Ely, and Winnemucca were transferred to the Equipment Division in January of 2024. In April of 2024, the Equipment Division assumed control of the equipment repair shops in District 1. Exhibit 2 demonstrates the Operations Division's organizational chart of the equipment repair shops and stockrooms.

**Operations Division's 2024 Organizational Chart of
Equipment Repair Shops and Stockrooms**

Exhibit 2



Source: Auditor prepared using NDOT records.
Note: Represents the organization as of April 2024.

History of Fraud

In 2013 and 2014, NDOT experienced two instances of fraud. Inadequate controls over NDOT procurement cards enabled a stockroom employee the ability to commit fraudulent purchases, valued at over \$250,000. This fraud was identified by NDOT in October of 2013. An investigation in 2014 also revealed at least \$35,000 in theft. In this instance, the workers purchased tires and falsified work order and purchase card documentation to justify the purchases. For example, work order documentation showed one truck with less than 11,000 miles driven received 34 new tires. This history was taken into consideration in our audit planning and testing.

Staffing and Budget

NDOT operates 14 budget accounts and is funded by fuel and motor vehicle taxes and fees and revenue collected by the federal government. Revenue is recorded in the State Highway Fund. NDOT received \$1.9 billion in revenues in fiscal year 2023 and expended \$1.2 billion. NDOT headquarters is located in Carson City. Exhibit 3 shows NDOT's revenues and expenditures for fiscal year 2023.

**Revenues and Expenditures
Fiscal Year 2023**

Exhibit 3

Revenues	Amounts
Appropriations	\$ 712,088,423
Taxes and Fees	451,261,032
Federal Aid	437,589,523
Beginning Cash	196,013,812
Transfer From Highway Fund	74,437,756
Revenues From Sales	29,323,110
Interest Income	12,751,099
Transfers from Other State Agencies	8,782,368
American Rescue Plan Act	1,840,839
Other Income ⁽¹⁾	29,528
Total Revenues	\$1,924,117,490
Expenditures	
Capital Improvements	\$ 700,508,588
Operating	158,697,851
Personnel Services	146,665,970
County Projects Funded by Property Tax ⁽²⁾	77,572,295
Bond Principal and Interest Payments	76,321,649
Transfers to Other State Agencies	45,161,802
Equipment	12,754,509
Federal Programs & Consulting	12,521,178
Cost Allocations & Assessments	5,740,531
Other ⁽³⁾	2,679,478
Travel	2,443,060
Total Expenditures	\$1,241,066,911
Difference	\$ 683,050,579
Less: Reversion to General Fund	(331,020,455)
Balance Forward to 2024	\$ 352,030,124

Source: State accounting system.

⁽¹⁾ Other income includes: credit card rebate and Nevada Energy Hoover Rebate.

⁽²⁾ Assembly Bill 595 of the 2007 Session required the transfer of a portion of the property tax in Clark and Washoe Counties to the State Highway Fund.

⁽³⁾ Other expenditures includes: state claims, honor camp payment, DPS highway safety plan and administration, NDOT logo sign program, bike path planning, and Washington DC office expenditures.

As of July 2024, NDOT had 2,250 total positions, of which 574 (26%) were vacant.

Scope and Objectives

The scope of our audit included a review of NDOT activities related to equipment repair shops, stockroom shops, material stockpiles, and executive staff vehicle use between January 2022 and June 2023, and through calendar year 2023 for certain activities. Our audit objectives were to:

- Determine whether NDOT has effective controls over stockroom purchases, equipment repair shop work, and material stockpiles; and
- Determine whether management's use of state vehicles is appropriate.

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

Inadequate Controls Over Stockroom Purchases and Material Stockpiles

NDOT continues to experience problems developing and implementing controls to safeguard assets and deter or detect fraud. Specifically, we observed purchasing controls designed to ensure the proper approval and accounting for vehicle and equipment parts were often circumvented and not effective. The proper recording and tracking of parts can also improve. In addition, deficiencies persist in how NDOT safeguards material stockpiles. Although we did not identify fraud during our audit work, given NDOT's history of fraud incidents, strong controls are needed in these areas as millions of dollars in parts and materials are purchased every year.

Some Activities Circumvent or Render Controls Ineffective

Controls designed to detect and deter fraud are not fully implemented or enforced. Staff do not follow processes requiring supervisory approval and separation of duties to ensure spending limits are enforced. Additionally, staff do not properly record parts in the asset management system. Finally, equipment repair shop supervisors do not consistently perform Quality Assurance Program inspections. Circumventing these controls increases the risk of fraud and abuse of NDOT resources.

Transactions Lack Documentation of Supervisory Approval and Separation of Duties

Documentation requesting parts lacked legible evidence of supervisory approvals or separation of duties. Of the 150 transactions tested, 57 (38%) did not have documentation demonstrating appropriate approvals, or proper separation of duties between the requestor, purchaser, and approver. One purchaser admitted to regularly using a co-worker's name to be the requestor on documentation. Another individual signed

documentation with a fictitious name to avoid controls relative to the proper separation of duties. Exhibit 4 shows the received by signature of “Jonny Appleseed.”

Falsified Signature Example

Exhibit 4



Source: NDOT Records.

Additionally, many requisition signatures were illegible, preventing staff from identifying the signatures. District management also bypassed policies by requesting staff develop purchase documentation after services were obtained in some cases.

Although NDOT policies and procedures require a separation of duties between the individual receiving the order and the purchaser or approver of the invoice, these requirements are not always followed nor enforced by supervising staff.

Purchases Split to Bypass Controls

Additional controls could improve the oversight of stockroom purchases. First, in some cases, stockroom staff split purchases to remain under the single transaction spending limit. Between January 2022 and February 2023, there were 77 instances of staff placing multiple orders to the same vendor in a single day. For 8 of 20 (40%) instances tested, the same items were procured from the same vendor on the same day, using different invoices, indicating possible circumvention of purchasing limits.

NDOT policies require transactions over \$5,000 to be submitted to the Equipment Division buyers. The State Administrative Manual also limits purchases to \$5,000 per purchase and states that direct purchases shall not be split into a series of smaller purchases as a device to avoid requirements. Without following these controls, NDOT may not be getting the best value and may be more vulnerable to inappropriate purchases.

Recording and Tracking of Vehicle Parts Can Improve

Staff do not always safeguard assets by accurately recording parts purchased. Testing of 1 week worth of purchases found stockroom staff did not record 146 parts or 1% of items tested, totaling nearly \$10,000 in the asset management system. While a 1% error rate is a small percentage, this could amount to approximately \$440,000 in assets in a year bypassing established controls. Recording parts is crucial to ensuring parts are not converted to personal use.

Additionally, our testing of 41 tire invoices, totaling almost \$25,000, found they were not accounted for in the asset management system. Sixteen tires were not on the vehicles identified in the invoices. For example, one invoice contained a purchase for two semitrailer tires, but the unit referenced on the invoice was a passenger car. Either these records are not accurate, or these tires may have been converted to personal use.

NDOT procedures require purchase card users to verify the statement by matching each listed item purchased against the transaction log; however, there is no process to verify parts are completely documented in the asset management system.

Equipment Repair Shops Do Not Consistently Implement Programs to Detect and Deter Fraud

Equipment repair shop supervisors do not consistently perform quality assurance program inspections of vehicles, which are designed specifically to detect and deter fraud. Four of nine equipment repair shops did not perform any inspections in calendar year 2022. Exhibit 5 demonstrates the varying levels of shop participation in the monthly required inspections.

**Number of Monthly Inspections Performed By
Equipment Repair Shops
Fiscal Year 2022**

Exhibit 5

Equipment Repair Shop	Inspections
North Las Vegas	0
Tonopah	0
Elko	0
Carson City	0
Fallon	1
South Las Vegas	5
Ely	6
Winnemucca	9
Sparks	9

Source: Auditor prepared using NDOT records.

Quality assurance program inspections consist of reviews of completed work orders to ensure records are complete and accurate, and that the parts were properly installed on the vehicle. Supervisors performing the inspections reported they do not always physically inspect units either because they are familiar with the abilities of staff or because the unit was returned to the crews and is no longer available for inspection. This is contrary to policies and procedures, which require physical inspection of work performed. In addition, standards for internal controls require that management establish physical control to secure and safeguard vulnerable assets. Without these controls, NDOT assets are vulnerable to theft.

These issues were also identified by NDOT internal audit staff; however, district leadership did not adequately address findings from annual stockroom audits. For example, of the 10 internal audit findings we reviewed, 7 were repeat issues in 2022 and 2023, 2 were new issues identified in 2023, and 1 finding was resolved. Issues included circumventing purchasing limits, incomplete documentation, inaccurate records, and inappropriate approvals.

Insufficient Controls to Account for and Safeguard Material Stockpiles

NDOT has weak controls over material stockpiles and related data, which lead to significant discrepancies between physical inventory counts and records. Additionally, NDOT staff allow local entities to use state materials without adequate oversight or formal agreements.

Stockpile records are not accurate due to weaknesses in: 1) recording purchases and the use of materials and 2) the inventory process. There were nearly \$25 million in discrepancies between NDOT's material tracking system and physical inventory records in fiscal year 2023. Five of six (83%) invoices tested were not correctly entered in the material tracking system, one of which was not recorded.

While NDOT is in the process of adopting a more accurate method for measuring stockpiles, historic methods were inconsistent and inaccurate. When measuring use, crews measure the load based on the truck capacity, or the size of the bucket loading the vehicle. When measuring stockpiles for inventory, some crews use a measuring wheel while others use different measuring tools. For example, some crews estimated the height of the stockpile by comparing it to the height of a truck or by counting strides. NDOT recently obtained a new method using a phone application to measure stockpiles.

When variances in stockpile measurements are greater than 5% during the inventory process, NDOT typically reviews use history to identify discrepancies. If adjustments continue to exceed 5%, staff will adjust stockpiles to be within 5%. Despite these practices, error rates up to 9,000% were identified in NDOT records.

Policies and procedures provided by staff were outdated or lacked clarity. When asked to provide policies and procedures for material stockpiles, management provided policies and procedures from 1987. In addition, maintenance managers received a memo with additional direction, but this memo did not provide direction for documenting receipt of material, use of material, or inventory.

Inaccurate records contributed to findings in the State of Nevada Single Audit Report (Single Audit) in fiscal years 2020, 2021, and 2022. In 2021, the inaccurate records resulted in a Qualified Opinion on the State Highway Fund of the State's financial statements. Without clearer procedures and standardization, these issues are likely to persist.

Local Entities Use NDOT Material and Equipment Without Proper Controls

Districts allow county and city employees to use material stockpiles and self-report usage. In one instance, NDOT employees acknowledged county employees have keys to NDOT facilities and use NDOT equipment to load materials. NDOT does not have a formal agreement with these local entities, and there are no processes to ensure the materials used are accurately tracked by NDOT and replenished or paid for by the local entities.

Internal control standards require that management should limit access to resources to authorized individuals or entities. Without formal agreements and written processes for monitoring and documenting use, local entities may not be replenishing stockpiles appropriately. Additionally, this may contribute to the significant discrepancies in NDOT records.

Recommendations

1. Create processes to reconcile stockroom purchases with the asset management system, ensuring all assets are properly recorded.
2. Create policies and procedures to properly address internal stockroom audit findings in a timely manner. Include the development of corrective action plans to hold management and staff accountable for correcting deficient behavior.
3. Develop a process to ensure shop supervisors fully implement the quality assurance program, including regularly performing inspections and physically verifying the installation of parts.

4. Enhance processes to ensure staff follow established purchasing policies and procedures, specifically in relation to obtaining proper approvals prior to making purchases and complying with the authorized spending limits.
5. Develop policies and procedures to ensure material stockpile purchases and use are accurately and completely entered in the material tracking system; and stockpile inventories are routinely performed in a consistent manner, reconciled to the material tracking system, and appropriate adjustments are made to the system.
6. Develop interlocal agreements with all local entities using NDOT's material stockpiles.
7. Develop a process to quantify and account for the use of assets by non-state entities.

Equipment Repair Shop Low Productivity and Inappropriate Use of State Resources

Low productivity rates at some equipment repair shops highlight procedural inefficiencies. Specifically, we observed significant variations in productivity between equipment repair shops, with low productivity recorded for several shops. For example, an analysis of shop records found mechanics at one location recorded an average of 2 hours a day working on NDOT vehicles. Furthermore, we observed the inappropriate use of state resources as unnecessary modifications were made to a vehicle and another vehicle was driven almost entirely for personal use. Low productivity and improper use of state resources results in waste and increased costs to the State as mechanics are being paid for duties they are not performing. In addition, fleet costs will increase if vehicle repairs or routine maintenance are not performed timely and routine maintenance is outsourced to vendors.

Significant Variations in Productivity Between Equipment Repair Shops

Productivity at equipment repair shops varied significantly between equipment repair shop locations and in many cases was below NDOT's standards. For example, one shop recorded less than 27% of work hours, or 2 hours per day to work orders. According to NDOT audit reports, the NDOT standard is that 80% of hours should be applied directly to work orders. Exhibit 6 demonstrates the percentage of time logged by each equipment repair shop.

**Equipment Repair Shop Logged Time to Work Orders
January 1, 2022 to June 9, 2023**

Exhibit 6

District	Equipment Repair Shop	Percentage of Time Logged to Work Orders	Average Hours Per Day ⁽¹⁾
1	North Las Vegas	47%	3.8
	South Las Vegas	27%	2.2
	Tonopah	79%	6.3
2	Carson City	82%	6.6
	Fallon	49%	3.9
3	Elko	76%	6.1
	Ely	69%	5.5
	Winnemucca	72%	5.7
Equipment Division	Sparks	94%	7.5

Source: Auditor prepared using NDOT records.

⁽¹⁾ Our testing assumed a 7-hour workday to compensate for annual and sick leave.

Work orders are created for repairs or maintenance to NDOT vehicles and equipment. Work orders track the reason for repairs, as well as work performed on the vehicles and equipment. Equipment repair shop personnel use a personal bar code scanner to log their time spent working on each work order. Data pertaining to each work order is tracked in NDOT's asset management system.

Low productivity and improper use of state resources results in waste and increased costs to the State as mechanics are being paid for duties they are not performing. In addition, fleet costs will increase if vehicle repairs or routine maintenance are not performed timely and routine maintenance is outsourced to vendors. Based on NDOT's own analysis, only 68% of units received on-time preventative maintenance in 2023.

District Management Not Always Addressing Identified Findings

District management does not always adequately address NDOT's internal audit findings. The Equipment Division provides district management with annual audit reports for the equipment repair shops. District management also receives quarterly equipment repair shop productivity memos. While management's response to some findings resulted in improvements, this was not always the case. Exhibit 7 indicates whether districts improved on

audit findings identified in internal audit reports between fiscal years 2022 and 2023.

**Progress With Improving NDOT Internal Audit Findings
for Equipment Repair Shops
Fiscal Years 2022 to 2023**

Exhibit 7

District	Equipment Repair Shop	Productivity Findings			Maintenance Findings		
		Equipment Repair Shop Productivity Improved	Percentage of Direct Hours FY 2023	Percentage of Change from FY 2022	Preventative Maintenance Improved	Percentage of On Time Preventative Maintenance FY 2023	Percentage of Change from FY 2022
1	North Las Vegas	Yes	54%	(7% ↑)	No	59%	(-6% ↓)
	South Las Vegas	No	28%	(-2% ↓)	No	58%	(-10% ↓)
	Tonopah	Yes	63%	(4% ↑)	Yes	90%	(4% ↑)
2	Carson City	Yes	92%	(17% ↑)	No	54%	(-10% ↓)
	Fallon	Yes	86%	(13% ↑)	No	63%	(-16% ↓)
3	Elko	Yes	76%	(17% ↑)	Yes	73%	(2% ↑)
	Ely	Yes	80%	(18% ↑)	Yes	58%	(29% ↑)
	Winnemucca	Yes	92%	(24% ↑)	Yes	90%	(4% ↑)
Equipment Division	Sparks	Yes	94%	(13% ↑)	Yes	71%	(11% ↑)

Source: Auditor prepared using NDOT records.

Internal control standards require management to evaluate performance, hold individuals accountable for their internal control responsibilities, and remediate deficiencies on a timely basis. Senior leadership indicated they used the audits for informational purposes, but did not directly address audits with district management. The lack of remediation of audit findings by management allows some issues to persist over time.

**Inappropriate
Use of State
Resources**

During our audit, we observed instances where the use of NDOT resources benefited the employee more than the interests of the State. Specifically, state vehicles were modified or used for the personal benefit of state employees. We considered these findings to be abusive and not fraudulent because the use of state funds related to these activities could be appropriate with proper controls in place, including adequate review and authorization.

Unauthorized Vehicle Alterations

One equipment repair shop performed questionable and inappropriate modifications totaling nearly \$20,000 on a 1987 NDOT pickup truck. Inappropriate alterations included installing:

- Window tinting;
- Matte black wheels and low-profile tires;
- Engine modification power chip to enhance performance of the vehicle; and
- A drop kit to lower the vehicle.

Examples of questionable work included performing preventative maintenance on the unit when there were no miles between services. Additionally, the work order notes indicated that staff was to clean, detail, prepare and repair the truck for a holiday party car show. The supervisor who improperly made these modifications subsequently purchased the unit for \$8,200 when it was sold at auction in April 2022. Staff stated this project was a team-building activity, but we consider this wasteful spending.

State law establishes a code of ethics for state employees. NRS 281A.400(5) states that if a public employee acquires information which is not at the time available to people generally, the employee shall not use the information to further a significant pecuniary interest.

Although NDOT management eventually became aware of the wasteful spending and took disciplinary action, NDOT does not have policies and procedures outlining what modifications to units are authorized. Additionally, stockroom staff indicated they processed requests for parts without fully understanding how the parts would be used.

Inappropriate Use of State Vehicle

Of the three units assigned to the NDOT Director's office, one unit was used excessively for personal use. Of the 2,700 miles driven between August and November 2023, over 2,200 (83%) miles were for personal use, based on GPS data analyzed by auditors.

This individual used the unit almost exclusively for commuting to and from work. Additionally, there were 18 days that included errands for personal use. We estimated the value of the personal use to be about \$5,000 per year.

The vehicle was used significantly more in 2023 when compared to 2022. This position changed in January 2023. Between March 2022 and November 2022, the unit received 25 gallons of fuel and traveled 340 miles. During the same period in 2023, the unit received nearly 400 gallons of fuel and traveled 8,500 miles, according to NDOT fuel records.

The State Administrative Manual and NRS 204.080 state that home storage of state-owned vehicles may be authorized for a state employee only if his or her duties include responding to conditions that regularly require an immediate response. For the 4 months tested, there were no instances when this individual responded to an incident.

In addition, home storage of a state vehicle is considered a form of compensation in some circumstances and is considered taxable wages per the Internal Revenue Service. Furthermore, NDOT did not submit the appropriate documentation for home storage of this unit in calendar year 2023. Subsequent to our inquiries, the appropriate documentation was completed and submitted to NDOT's Equipment Division and Accounting Section.

Recommendations

8. Develop policies and procedures to monitor employee productivity and hold staff and supervisors accountable for low-performing equipment repair shops.
9. Develop policies and procedures to ensure work performed on state vehicles is appropriate and establish disciplinary action to address violations.
10. Develop policies and procedures to ensure all employees adhere to NRS 204.080, which prohibits use of state vehicles for private use.

Appendix A

Audit Methodology

To gain an understanding of the Nevada Department of Transportation (NDOT), we interviewed staff and reviewed statutes, regulations, and policies and procedures significant to NDOT operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing the activities of NDOT. Furthermore, we documented and evaluated internal controls related to NDOT's stockroom purchases, equipment repair shop productivity, material stockpiles, vehicle use, and travel claims.

Our audit included a review of NDOT's internal controls significant to our audit objectives. Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objective of the entity. The scope of our work on controls related to stockroom purchases, equipment repair shop productivity, raw materials, vehicle use and travel claims, included the following:

- Design control activities; and implement control activities through policy (Control Activities);
- Evaluate performance and enforce accountability (Control Environment); and
- Perform monitoring activities and evaluate issues and remediate deficiencies (Monitoring).

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

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

To determine if purchase card transaction data was adequately complete and accurate, we first obtained purchase card data and Data Warehouse of Nevada (DAWN) transaction data for January 2022 through March 2023. We randomly selected 10 of the 27,340 transactions and compared key data points to invoice documentation. To determine if the data was complete, we randomly selected 10 transactions in DAWN and reviewed purchase card transactions. We determined the data was reliable for our testing purposes.

To assess the accuracy and completeness of the parts spreadsheet, we reviewed the information for organization and logic. We obtained the parts purchased report and downloaded the DAWN budget status report for July 2022 through April 2023. We randomly selected 10 transactions from the DAWN report and obtained invoices for the 10 transactions. We tested completeness and accuracy by confirming each entry in DAWN is accurately entered in the parts report.

To assess the accuracy and completeness of commercial charges, we obtained the DAWN transactions and commercial charges report for January 2022 through April 2023. The report contained 2,811 entries. We then isolated vendors that are traditionally associated with commercial charges, randomly selected 10 transactions from the report, and compared our selection to invoices to determine if data was accurate. To assess completeness, we randomly selected 10 entries from the commercial charges entered in DAWN and confirmed the entry in the report.

To determine if work order data is accurate and complete, we obtained work order reports for 45,239 jobs and DAWN reports for January 2022 through April 2023. We then randomly selected 10 transactions from DAWN. Using the corresponding invoices, we identified the appropriate work order and compared asset management system data to the invoice for accuracy and

completeness. We concluded the data was reliable for testing purposes.

To determine if NDOT staff adequately documented vehicle parts purchased, we obtained purchase card documentation and the accompanying invoices for 438 transactions between November 24, 2022, and December 3, 2022. Additionally, we obtained parts reports and commercial charges reports for November 24, 2022 and December 3, 2022. We reconciled purchase card invoices to parts reports and commercial charges reports to identify which parts were not properly documented. We reviewed applicable policies and procedures, and discussed results with management.

To determine if staff followed applicable policies and procedures, we reviewed appropriate policies and procedures relating to purchase cards. We also queried DAWN for parts purchased between January 1, 2022, and April 30, 2023, to select 150 transactions. We selected transactions randomly based on the proportion of transactions for each district. Next, we obtained and reviewed requisition, invoice, and asset management system documentation to determine if the processing of these transactions followed applicable policies and procedures. We discussed our findings with appropriate staff and management.

To test the tire purchases, we obtained all 227 tire invoices from two predominant vendors for transactions placed by the Las Vegas stockroom in calendar year 2023. We then reviewed the asset management system to determine if the tires were properly recorded. For tires that were not properly recorded, we physically reviewed vehicles identified on invoices to locate the tires. For units without tires, we verified these units did not have subsequent tires installed after the invoice date. We then discussed our findings with staff and management.

To determine if staff split purchases to remain within the \$5,000 limit, we tested purchase card transactions for purchases between January 2022 through February 2023. We extracted transactions with multiple purchases placed to the same vendor in the same day. We tested 20 of the 77 transactions to determine if the transactions were placed by the same employee and coded for

the shop or the same work order. The sample selection was based on the number and total value of transactions placed on a single day. We reviewed requirements in the State Administrative Manual, and applicable policies and procedures. We also discussed findings with staff and management.

To test controls over stockpile inventories, we obtained stockpile inventory sheets for the most recent inventory performed on all 328 stockpiles and invoices. To assess data reliability, we selected two stockpiles from each of the three districts. We then obtained invoices for the corresponding stockpiles, and compared key data points to assess if invoices were accurately and completely recorded.

Next, we compared stockpile inventory sheets to determine the differences between the physical inventory count and what is recorded in NDOT's Electronic Adjudication Management System material inventory records. We spoke with staff in each district to determine the measuring techniques. Then, we calculated the monetary value of all the stockpiles and error rate. Finally, we inquired about the use of material by local entities. Additionally, we obtained documentation of material use by local entities, and requested documentation of interlocal agreements. We discussed our findings with management.

To test the levels of mechanic productivity, we used the work orders by jobs spreadsheet, and calculated the average time allocated to each job for jobs with a duration exceeding 1 hour. We then applied the average duration based on the job description for jobs with a duration of less than 1 hour. We then calculated the number of hours for each of the 132 employees employed between July 1, 2022, and June 9, 2023. We adjusted for weekends, holidays, and assumed each employee would work a 7-hour day to compensate for leave. We then compared the total number of hours documented in work orders for each mechanic, equipment repair shop, and district to the number of hours employed and compared this to NDOT standards. We also reviewed work orders to determine if work completed was appropriate. We discussed findings with applicable staff.

To determine if the quality assurance program is consistently implemented, we obtained copies of inspections performed by each of the nine equipment repair shops for fiscal year 2023 and documented when staff performed quality assurance program inspections. We discussed the quality assurance program with six equipment repair shops. In addition, we discussed the audits with district leadership.

We also obtained annual audit findings for fiscal years 2022 and 2023 for each of the nine equipment maintenance shops and eight stockrooms. Next, we obtained all monthly purchase card audits for fiscal year 2022. We also obtained copies of the Nevada Statewide Single Audit for fiscal years 2020, 2021, and 2022. We then documented findings for each year to determine if management adequately addressed audit findings. We interviewed district and department leadership regarding addressing audit findings.

To test appropriateness of state vehicle use, we obtained copies of driving reports and obtained travel claim reports for each of the three units assigned to NDOT Director's Office from August to November 2023. To assess reliability of data, we compared travel reports to parking receipts. We then analyzed driving report data to determine if vehicle use was appropriate and then quantified any inappropriate use. We reviewed the State Administrative Manual. We also requested W-2 information documents for home storage of vehicles. Finally, we discussed results with management.

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those

standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit work was conducted from July 2022 to April 2024. In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Director of the Nevada Department of Transportation. On December 2, 2024, we met with agency officials to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix B, which begins on page 26.

Contributors to this report included:

Amanda Barlow, MPA, CGFM
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Appendix B

Response From the Nevada Department of Transportation



JOE LOMBARDO
Governor

STATE OF NEVADA
DEPARTMENT OF TRANSPORTATION
1263 S. Stewart Street
Carson City, Nevada 89712

TRACY LARKIN THOMASON, P.E.
Director

December 19, 2024

Daniel L. Crossman
Legislative Auditor
Nevada Legislative Council Bureau – Audit Division
401 S. Carson Street
Carson City, NV 89701-4747

Dear Mr. Crossman:

We appreciate the opportunity to participate in the audit of the Nevada Department of Transportation (NDOT) and would like to extend our thanks to you and your team. The feedback and recommendations from LCB audit staff are welcomed and valued by our agency.

Following the preliminary audit report provided on 11/22/2024, covering Stockroom Purchases, Material Stockpile Management, and Mechanic Productivity 2024, NDOT acknowledges and accepts all recommendations. NDOT had already taken several actions to address some of the recommendations and has now initiated or will soon initiate implementation of changes and processes to address the remaining recommendations. Below you will find NDOT's response to each recommendation along with the status of the changes being implemented either presently or in the near future.

Inadequate Controls over Stockroom Purchases and Material Stockpiles:

1. Create processes to reconcile stockroom purchases with the asset management systems, ensuring all assets are properly recorded.

Response: NDOT agrees with this recommendation.

Existing processes will be reviewed, revised, and any gaps will be addressed.

2. Create policies and procedures to properly address internal stockroom audit findings in a timely manner. Include the development of corrective action plans to hold management and staff accountable for correcting deficient behavior.

Response: NDOT agrees with this recommendation.

An additional equipment auditor position was approved in late October 2024 to review stockroom and repair shop operations across the state. This recruitment will open in January 2025. Their duties will include auditing of the quality assurance reports.

3. Develop a process to ensure shop supervisors fully implement the quality assurance program including regularly performing inspections and physically verifying the installation of parts.

Response: NDOT agrees with this recommendation.

An additional equipment auditor position was approved in late October 2024 to review stockroom and repair shop operations across the state. This recruitment will open in January 2025. Their duties will include auditing of the quality assurance reports.

4. Enhance processes to ensure staff follow established purchasing policies and procedures, specifically in relation to obtaining proper approvals prior to making purchases and complying with authorized spending limits.

Response: NDOT agrees with this recommendation.

These processes will be reviewed and adjusted as needed to ensure the purchasing policies and procedures are followed.

5. Develop policies and procedures to ensure material stockpile purchases and use are accurately and completely entered in the material management system; and stockpile inventories are routinely performed in a consistent manner, reconciled to the material management system, and appropriate adjustments are made to the system.

Response: NDOT agrees with this recommendation.

Processes for material purchases were established in the 2017 NDOT Maintenance Manual under Task 270.06.01 and the 2016 NDOT Manual of instruction to document the purchasing, recording, and documentation of material purchases that initiate with District Maintenance personnel, to the Equipment Division purchasing, to the State Controller's office to order the material from the appropriate and current Open Term Contract.

NDOT is currently updating all our internal Transportation Policies which will include the outdated Transportation Policy (TP 1-5-5) regarding this issue. All policies are currently being reviewed for current relevance and correctness, then modified as appropriate.

Annual stockpile purchases are currently completed once a year near the end of the state fiscal year in accordance with the recommendation received from an earlier audit (2020). An updated mandatory procedure for measuring the stockpile quantities for this inventory has been established. The process was implemented statewide beginning in 2024 after two years of research, testing and evaluation.

These annual audits are now being reconciled to NDOT's material tracking system (EAMS-Enterprise Asset Management System) with adjustments included. The reconciled stockpile values are then being forwarded to NDOT Accounting Division for annual reporting to the Controller's office.

6. Develop interlocal agreements with all local entities using NDOT's material stockpiles.

Response: NDOT agrees with this recommendation.

New interlocal agreements will be established that are being defined with a standard Memorandum of Understanding (MOU) for non-state entities material usage.

7. Develop a process to quantify and account for the use of assets by non-state entities.

Response: NDOT agrees with this recommendation.

Various methodologies of tracking non-state entity usages of materials have been identified. Evaluation of the most appropriate measures for tracking are under investigation. Once identified these methods will be mandated for use through newly established interlocal agreements that are being defined with a standard Memorandum of Understanding (MOU) for non-state entities material usage.

Equipment Repair Shop Low Productivity and inappropriate Use of State Resources:

8. Develop policies and procedures to monitor employee productivity and hold staff and supervisors accountable for low-performing equipment repair shops.

Response: NDOT agrees with this recommendation.

NDOT is reviewing existing policies and procedures to determine what should be updated and identify any gaps. The Equipment division is creating a statewide Equipment Shop working group to ensure that all shops are documenting appropriately and uniformly. Training is to be provided to all shops to go over all documentation.

9. Develop policies and procedures to ensure work performed on state vehicles is appropriate and establish disciplinary action to address violations.

Response: NDOT agrees with this recommendation.

NDOT moved the District 1 equipment shops under the Headquarters Equipment in April of 2024. To address oversight issues, NDOT obtained an Equipment Operations Manager position to oversee the shop operations and stockrooms in the Tonopah, North Las Vegas, and South Las Vegas yards. This position was filled in November of 2024. Additionally, an additional equipment auditor position was obtained to review stockroom and repair shop operations across the state. This recruitment will open in January 2025.


10. Develop policies and procedures to ensure all employees adhere to NRS 204.080, which prohibits use of state vehicles for private use.

Response: NDOT agrees with this recommendation.

All NDOT department transportation policies are being reviewed for current relevancy and will be adjusted to reflect current needs. This will be included.

If you have any further questions or require any additional information, please do not hesitate to contact me or my team.

Sincerely,



Tracy Larkin Thomason, Director
Nevada Department of Transportation

Nevada Department of Transportation's Response to Audit Recommendations

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Create processes to reconcile stockroom purchases with the asset management system, ensuring all assets are properly recorded.	<u>X</u>	<u> </u>
2. Create policies and procedures to properly address internal stockroom audit findings in a timely manner. Include the development of corrective action plans to hold management and staff accountable for correcting deficient behavior	<u>X</u>	<u> </u>
3. Develop a process to ensure shop supervisors fully implement the quality assurance program, including regularly performing inspections and physically verifying the installation of parts.	<u>X</u>	<u> </u>
4. Enhance processes to ensure staff follow established purchasing policies and procedures, specifically in relation to obtaining proper approvals prior to making purchases and complying with authorized spending limits.	<u>X</u>	<u> </u>
5. Develop policies and procedures to ensure material stockpile purchases and use are accurately and completely entered in the material tracking system; and stockpile inventories are routinely performed in a consistent manner, reconciled to the material tracking system, and appropriate adjustments are made to the system.	<u>X</u>	<u> </u>
6. Develop interlocal agreements with all local entities using NDOT's material stockpiles.	<u>X</u>	<u> </u>
7. Develop a process to quantify and account for the use of assets by non-state entities.	<u>X</u>	<u> </u>
8. Develop policies and procedures to monitor employee productivity and hold staff and supervisors accountable for low-performing equipment repair shops.....	<u>X</u>	<u> </u>
9. Develop policies and procedures to ensure work performed on state vehicles is appropriate and establish disciplinary action to address violations.	<u>X</u>	<u> </u>
10. Develop policies and procedures to ensure all employees adhere to NRS 204.080, which prohibits use of state vehicles for private use.	<u>X</u>	<u> </u>
TOTALS	<u>10</u>	<u> </u>