

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**A REVIEW OF THE PUBLIC UTILITIES
COMMISSION'S REGULATION OF
PASSENGER VEHICLE OPERATIONS**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-562

A REVIEW OF THE PUBLIC UTILITIES COMMISSION'S
REGULATION OF PASSENGER VEHICLE OPERATIONS

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Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the Public Utilities Commission's (commission) regulation of passenger transportation. The commission is required by the California Constitution and state law to regulate certain types of passenger vehicle operations. The passage of the federal Bus Regulatory Reform Act of 1982 has not significantly affected the commission's regulatory responsibilities. The commission, however, has made changes in the way it interprets statutes regarding the entry of new carriers on to routes served by other carriers. As a result, the number of carriers has increased. In addition, the commission, through poor management and a lack of coordination, is not effectively regulating passenger transportation. As a result, carriers might be operating illegally and the costs of regulation are higher than they should be if the commission were operating efficiently.

We conducted this audit to comply with Item 8660-001-412 of the 1985 Budget Act.

Respectfully submitted,

for THOMAS W. HAYES
Auditor General

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SUMMARY

The Public Utilities Commission (commission) is required by the California Constitution and state laws to regulate companies and individuals, commonly called "passenger carriers," that operate passenger vehicles such as private buses, vans, and limousines. The passage of the federal Bus Regulatory Reform Act of 1982 (Bus Reform Act) did not significantly affect the commission's regulatory responsibilities. However, in 1980 and 1983, the commission made policy changes based on a reinterpretation of statutes, dramatically affecting how passenger carriers are regulated. The commission is not, however, adequately regulating these carriers because it is not evaluating the fitness and financial stability of charter party applicants, it is not fully enforcing safety and insurance requirements, it is not effectively resolving consumer complaints, and it is not verifying that carriers comply with the commission's decisions to suspend or revoke their operating authority. As a result, some carriers may be operating illegally, and the commission's regulation of passenger vehicle operations may be costing more than it should.

The Effect of the Federal Bus Reform Act

The federal Bus Regulatory Reform Act has not significantly affected the commission's regulatory responsibilities. The Bus Reform Act affects only interstate carriers, which make up 2 percent of the carriers regulated by the commission. Intrastate carriers, which operate solely in California, are not affected. Specifically, the Bus Reform Act allows the federal Interstate Commerce Commission (ICC) to certify intrastate routes for carriers that already have federal interstate authority and to control these carriers' schedules. The act also allows interstate carriers to appeal commission decisions. Litigation is currently in progress to determine whether the commission

or the ICC will certify interstate carriers to establish intrastate routes that do not coincide with their interstate routes. The resolution of this litigation, which is not expected before summer of 1986, will not affect the commission's responsibility to regulate interstate carriers' abandonment of intrastate routes and intrastate fares. Chapter 142, Statutes of 1984, amended the Public Utilities Code to conform to federal requirements.

The Commission Has Changed Its Interpretation of Statutes

In 1980, the commission changed its interpretation of statutes that apply to the establishment of routes by new carriers in areas already served by other carriers. According to the statutes, the commission can grant new authority to operate passenger transportation service only if it is proved that the existing service is "inadequate" or is not satisfactory to the commission. Before 1980, the commission used these statutes to grant monopoly rights to carriers in exchange for their guarantee that they would serve certain areas. In 1980 and 1983, the commission reinterpreted the statutes. Specifically, the commission redefined "inadequate service" to mean a lack of competition. As a result, the total number of carriers with operating authority jumped from under 700 in 1978 to over 2,000 in 1985.

The Commission Is Not Effectively Meeting Regulatory Requirements

The commission is not properly evaluating applications for authority to operate charter party transportation services. The commission does not evaluate applicants' fitness or financial stability beyond requiring proof of insurance and a safety inspection. Therefore, carriers that lack the financial resources to properly and safely maintain their vehicles may be certified to provide transportation services. In addition, the commission does not compile information on carrier safety and insurance that it can refer to in

evaluating carrier fitness for renewals of authority. Although we did not determine whether a direct link exists between financial resources and vehicle safety, at one unannounced highway bus inspection conducted by the California Highway Patrol in June 1985, 50 percent of the commission-regulated carriers that were inspected had vehicles pulled from service until major safety violations were corrected.

Because the commission's regulation of passenger carriers is poorly organized and executed, the commission is not fully enforcing the requirements for carrier safety and insurance. We found errors stemming from the lack of coordination in 26 percent, or 6 of 23, of the files we reviewed. These processing errors allowed some uninsured carriers to operate illegally. The commission's errors in processing documents, in addition to its lack of coordination and inappropriate work assignments, may have increased the costs of regulation. Furthermore, the commission does not effectively resolve consumer complaints. Forty-six percent, 11 of the 24 complaints we reviewed, were inappropriately resolved. Over 40 percent of the unresolved complaints are over seven months old.

Finally, the commission has not implemented procedures to verify that its decisions to suspend or revoke carriers' operating authority are complied with. The commission has no reliable listing of those carriers whose authority has been suspended or revoked. Consequently, carriers may be operating illegally with unsafe or uninsured vehicles. We contacted four carriers with suspended authority; all of them offered to provide us service. The failure of the commission to enforce suspensions and revocations not only jeopardizes the public but exposes the State to lawsuits involving carriers who operate illegally. In 1975, for example, the commission paid an out-of-court settlement of \$50,000 because the commission had failed to revoke a carrier's operating authority.

INTRODUCTION

The California Public Utilities Commission (commission) is responsible for regulating privately-owned public utilities and transportation companies. The commission's objective in the regulation of passenger transportation is to ensure that passenger carriers provide adequate and dependable transportation that meets public demand. The commission's responsibilities include controlling and limiting the establishment of passenger transportation service to those applicants that are financially responsible and demonstrate the capability to render adequate service. Currently, the commission regulates the rates and service of more than 2,000 privately-owned transportation companies.

Establishment of the Public Utilities Commission

In 1911, an amendment to the California Constitution established the Railroad Commission, which was responsible for the regulation of transportation and other public utilities such as the telegraph and the transmission of heat, light, and water. In 1946, a constitutional amendment changed the name of the Railroad Commission to the Public Utilities Commission. Article XII of the constitution establishes the commission's authority to regulate transportation and establishes the right of the commission to determine rates and make rules for the transportation of passengers. The constitution also specifically forbids a transportation company to raise a rate or an

incidental charge until it has demonstrated to the commission that the rate change is justified and until the commission has issued a decision to this effect.

The Public Utilities Code, Divisions 1, 2, and 4, set forth the statutory requirements that the commission must meet in regulating passenger transportation. The commission is required to regulate service, rates, insurance coverage, and smoking/no smoking areas.

The current commission is composed of five members appointed by the Governor and confirmed by the State Senate for staggered six-year terms. Each year, the commission elects one of its members to preside at decision-making conferences and other formal sessions. The commission appoints an executive director responsible for the day-to-day operation of the commission and the supervision of over 980 staff, including accountants, engineers, economists, and other professional and support staff. The commission also appoints a general counsel, who is responsible for supervising the commission's attorneys. For fiscal year 1985-86, the commission has a budget of over \$54 million; approximately \$2 million is budgeted for the regulation of passenger vehicles.

The Types of Passenger Transportation Operating Authority

The commission grants two types of operating authority for the transportation of passengers: "passenger stage corporation" and "transportation charter party." Passenger stage carriers transport passengers between fixed points or over a regular route for set fares. According to the Director of the Transportation Division, because the public comes to expect the regular service, passenger stage carriers are considered public utilities. The commission regulates the entry of passenger stage carriers into new routes, their abandonment of routes, and their requests for fare increases. The commission also requires that passenger stage carriers provide proof of liability insurance and satisfactory California Highway Patrol (CHP) safety inspection. The CHP inspections, which are required every 13 months, provide assurance that the carriers' vehicles and maintenance facilities meet minimum safety standards.

Charter party carriers do not regularly serve the general public but provide service only under contract to groups or conduct transportation services incidental to another business. Because they do not provide regular service, charter party carriers are not considered public utilities. Nevertheless, according to the Public Utilities Code, they are subject to commission regulation. The commission regulates the entry of new charter party carriers and the annual renewal of their operating authority. Charter party carriers must also submit proof to the commission of adequate insurance and safety inspections.

Carriers can have authority to operate both passenger stage service and charter party service. Presently, there are over 200 passenger stage carriers and approximately 2,000 charter party carriers.

The Application Process for Operating Authority

Because passenger stage carriers are considered public utilities, the application process for authority for new entry, abandonment, and rate increase requires a detailed review by the commission. For any request for a change in service, except certain schedule changes, carriers must submit detailed applications to the commission. The Chief Administrative Law Judge assigns the application to either an administrative law judge or to an examiner in the Transportation Division. The application is subject to a notice period for public comment and, if protests are received, is subject to a public hearing before an administrative law judge. Based upon the information provided in the application, in addition to the evidence gathered from public comments or from a hearing, the administrative law judge or the examiner prepares a draft order, which summarizes the application and any other information received. Commission staff then review the draft order. If the order is acceptable to a majority of the commissioners, it is signed. Staff in the Transportation Division then prepare a certificate based upon the details of the order.

Staff within the Transportation Division are also responsible for ensuring that passenger stage carriers maintain adequate insurance coverage and CHP safety reports. If a carrier's insurance is cancelled, if the carrier fails to meet CHP safety requirements, or if the carrier does not pay its fees, the commission first suspends the carrier's authority to operate and, if the carrier does not take corrective action, the commission can revoke the carrier's authority to operate.

Generally, applications for new charter party authority and for renewal of authority are handled within the Transportation Division as administrative matters. Charter party authority is granted to carriers with completed application forms, paid fees, proof of insurance, and satisfactory CHP safety inspections. Staff within the Transportation Division maintain all charter party carrier files and are responsible for monitoring carrier insurance and safety. Charter party carriers that fail to meet insurance, safety, or fee requirements may have their authority to operate suspended and revoked if they do not take corrective action.

The commission's Legal Division and its Management Services Division are also responsible for a variety of transportation-related duties. The Legal Division represents the commission before the California Supreme Court and the federal courts, answers requests for legal opinions, responds to inquiries, and prepares orders to implement investigations. The Management Services Division maintains data,

through its automated Standard Time Reporting System, on commission expenditures related to the regulation of passenger transportation.

To cover the costs of regulating passenger transportation, the commission sets a fee that the passenger carriers must pay. The fee is based upon the commission's annual expenditures for the regulation of passenger carriers. For fiscal year 1985-86, the fee is set at one percent of the carriers' gross revenues for intrastate routes. The fees are paid into the Public Utilities Commission Transportation Reimbursement Account. In fiscal year 1985-86, commission expenses are expected to be approximately \$2 million. (See the appendix for more detailed information on how the commission's expenditures are calculated.)

SCOPE AND METHODOLOGY

The purpose of this audit was to examine the effects of recent federal regulations on the commission's regulation of passenger vehicle operations. We also reviewed the cost effectiveness and efficiency of the existing regulatory program.

To determine the effects of the federal Bus Regulatory Reform Act of 1982 on state requirements, we interviewed commission staff and attorneys. We also reviewed the regulatory activities of other states.

To evaluate the efficiency and cost-effectiveness of the commission's regulatory activities, we reviewed the commission's procedures for administering passenger transportation requirements. We outlined the various processes for the evaluation of passenger stage and charter party authority applications through interviews with staff from the Transportation Division, the Division of Administrative Law Judges, and the Legal Division and through a review of commission reports. We reviewed the administrative procedures within the Transportation Division for the monitoring of carrier insurance and safety inspections, for the resolution of informal complaints, and for the enforcement of the suspension or revocation of operating authority. We also reviewed commission files for accuracy and evaluated the adequacy of the commission's management information.

To document safety inspection procedures and requirements, we interviewed the head of the Motor Carrier Section of the CHP. We also reviewed the results of the CHP's unannounced highway bus inspections.

Finally, we reviewed the commission's development of the user fee paid by passenger vehicle operators. We also reviewed the costs associated with the processing of 61 passenger stage applications approved since January 1984.

AUDIT RESULTS

I

THE EFFECTS OF THE FEDERAL BUS REGULATORY REFORM ACT OF 1982 AND THE PUBLIC UTILITIES COMMISSION'S REINTERPRETATION OF STATE STATUTES

The federal Bus Regulatory Reform Act of 1982 (Bus Reform Act) has not significantly affected the Public Utilities Commission's (commission) regulatory responsibilities. Intrastate carriers, those carriers with routes only in California, are not affected by the Bus Reform Act. In addition, California continues to regulate the intrastate routes, the rates, and the insurance coverage and safety requirements of interstate carriers. Because the commission has changed its interpretation of statutes, however, regulatory policy has changed, and the total number of carriers increased from less than 700 in 1978 to over 2,000 in 1985. Specifically, the commission changed its interpretation of statutes that had been used to grant carriers monopoly rights to an interpretation that encourages competition.

The Effects of the Bus Regulatory Reform Act of 1982 on California's Regulatory Requirements

The Bus Reform Act has not significantly affected the commission's regulatory responsibilities. Intrastate carriers, those carriers with routes only in California, are not affected by the Bus Reform Act. In addition, California continues to regulate the

intrastate routes, the rates, and the insurance and safety requirements of interstate carriers. However, the Bus Reform Act authorizes the Interstate Commerce Commission (ICC) to certify intrastate operations for carriers with interstate authority. For these carriers, the ICC now may overrule the commission's decisions regarding rate changes and route abandonment.

The question of whether the ICC or the commission will control entry of inactive interstate carriers into intrastate routes is currently in litigation in federal court. The outcome of the case will not affect the commission's regulation of interstate carriers' abandonment of intrastate routes, of fares, or of the CHP's regulation of vehicle safety.

Congress passed the federal Bus Regulatory Reform Act of 1982 to update federal statutes governing the regulation of the motor bus industry. The changes in these statutes reflect congressional goals to promote greater competition in and to reduce regulation of the motor bus industry. The Bus Reform Act requires states to conform to federal statutes within two years of its passage. Chapter 142, Statutes of 1984, amended the Public Utilities Code to conform to federal requirements.

The Bus Reform Act permits the ICC to certify intrastate operations on interstate routes. Interstate carriers with authority from the ICC are those which carry passengers between one state and

another state, between a state and a foreign country, or between a state and a reservation under the exclusive jurisdiction of the United States. Intrastate carriers are those transporting passengers entirely within one state.

Congress authorized the ICC to certify intrastate routes for interstate carriers to combat the "closed door" service practiced by some state regulatory agencies that prohibited interstate buses from picking up passengers and transporting them from one place in a state to another place within the same state.

According to the head of the Service and Cost Branch in the Transportation Division, the most significant effect of the Bus Reform Act has been on the regulation of the schedules of intrastate carriers with interstate authority. According to a commission attorney, interstate carriers can, for example, reduce the frequency of service to a particular destination to one trip per weekday without the commission's approval. However, the commission has the right to rule on route abandonment cases. According to the commission's Director of the Transportation Division, only 2 percent of commission-regulated carriers have interstate authority. However, one of these carriers, Greyhound Lines, Incorporated, serves the majority of California cities.

The Bus Reform Act has also set time limits on the commission's response to carriers' requests. Carriers with ICC certification must first request approval of changes in rates or schedules from the commission. The Bus Reform Act requires that the commission act on these requests within 120 days. If no action is taken or if the carrier disagrees with the commission's decision, the ICC-certified carrier may petition the ICC for permission to change its schedules or rates.

The Bus Reform Act requires the states to amend their standards and procedures regarding transportation regulation to conform to the changes in federal legislation within two years of the passage of the Bus Reform Act. California met this requirement with Chapter 142, Statutes of 1984, which took effect January 1, 1985. Several changes in the Public Utilities Code occurred in response to the Bus Reform Act. First, the definition of passenger stage corporation was amended so that it excludes intrastate carriers with ICC authority. Also, the commission may authorize intrastate carriers to reduce rates with only one day's notice to be competitive with ICC-certified carriers that have this right. In addition, the commission must grant authority to every interstate passenger stage carrier that conducts intrastate passenger transportation unless the commission's right to grant authority has been preempted by the Bus Reform Act. The commission may attach conditions or limitations if these are consistent with federal law and regulation. Also, liability insurance requirements must meet federal minimum standards. Finally,

California responded to the Bus Reform Act's establishment of "Zone of Rate Freedom," which allows carriers to raise or lower rates within certain percentages. The commission may now authorize passenger stage corporations on certain intrastate routes to adjust rates without going through commission processes if conditions of competition exist that will result in reasonable rates and charges.

A major area of contention between the commission and the ICC is the interpretation of statutes regulating the entry of new carriers. The Bus Reform Act gives the ICC the right to issue certificates permitting interstate carriers to operate intrastate passenger service. The commission interprets this right to mean that the proposed intrastate service must be part of the existing interstate service. According to a commission attorney, the ICC interprets the Bus Reform Act to mean that the ICC may authorize intrastate operations to carriers once the carrier has obtained an interstate certificate even if the carrier's interstate operations are dormant. According to the commission's attorney, the ICC has granted intrastate authority to FunBus Systems, Inc. (FunBus), based on FunBus' never-used interstate authority to operate between Los Angeles International Airport and Las Vegas. FunBus, using this authority, operates an airport service that is not connected to its Las Vegas route. Another carrier, Lounge Car Tours Charter Co., Inc. (Lounge Car), operates similar airport service. Lounge Car has interstate authority that, as of September 1985, it had not used. Nevertheless, the ICC has granted this company intrastate authority.

The commission is currently challenging the ICC's authority to issue intrastate certificates to carriers that are not and will not be providing interstate service on the intrastate routes. To resolve the conflicting interpretations, the commission filed a Petition for Review, which is currently in litigation before the United States Court of Appeals for the Ninth Circuit. A decision is not expected before the summer of 1986. If the ICC decision is upheld in this court, the ICC will control entry over intrastate carriers that have interstate authority even though the carrier may not be conducting interstate service. However, according to the commission's attorney, the commission will still regulate intrastate rates and abandonment issues, and the CHP will continue to regulate the safety of carriers.

We reviewed the regulatory activities of the 50 states as reported by the National Association of Regulatory Utility Commissioners and found that only four states, Arizona, Florida, Maine, and Michigan, do not regulate passenger vehicle operations. Alaska and Indiana restrict their regulatory responsibilities to monitoring carrier insurance. The majority of states continue to regulate the entry, route abandonment, rates, safety standards, and insurance requirements of passenger carriers.

The Commission Has Changed Its
Interpretation of Statutes Relating
to the Entry of New Passenger Carriers

The commission has changed its interpretation of statutes relating to the entry of new passenger carriers into areas already served by other carriers. Sections 1032 and 5375.1 of the Public Utilities Code require the commission to restrict the number of operating authorities it issues in areas that are already served by other carriers. According to these statutes, the commission can grant new authority for passenger transportation services only if it is proved that the existing service is inadequate or is not satisfactory to the commission. Traditionally, the commission used these statutes to grant monopoly rights to carriers in exchange for the carriers' guarantee that certain areas would be served. In 1980 and 1983, the commission reinterpreted these statutes. Specifically, the commission changed its definition of inadequate service to mean a lack of competition. As a result, the total number of carriers with operating authority jumped from less than 700 in 1978 to over 2,000 in 1985.

Public Utilities Code Section 1032 states that the commission may issue a passenger stage operating authority in an area already served by another carrier only when the existing passenger stage carrier will not provide service to the satisfaction of the commission. Section 5375.1 of the Public Utilities Code specifies that the commission may not grant charter party authority to an applicant unless it can be shown that the existing charter party carrier serving the

territory is providing service that is unsatisfactory to the commission and inadequate for the public. In addition, the code states that the commission must impose any restriction that may be reasonably necessary to protect any existing charter party carrier. According to the Auditor General's Legal Counsel, administrative bodies, such as the commission, have broad discretion in interpreting statutes that control them.

According to the commission's Director of the Transportation Division, before 1980 the commission used these two statutes as the basis for excluding competition along profitable routes for passenger stage carriers or in profitable territories for charter party carriers. This policy formed the basis for the practice of "cross-subsidization," which allowed carriers to operate without competition along certain routes or in certain territories if they would also serve less profitable or marginal areas that would otherwise lack service.

In 1980, through a decision on an individual application, the commission revised its policies regarding the entry of passenger stage and charter party carriers into areas already served by other carriers. The commission stated in its decision on the application of American Buslines, Inc., that it would not use Section 1032 of the Public Utilities Code as a bar to service, noting that a policy that encourages monopolistic service deprives the public of the benefits of competition and that excluding all new entrants is not satisfactory service. The commission noted in the same decision that it would use

the restrictive statute to deny applications for new authority in certain cases when, for example, a territory is so obviously saturated with carriers that more competition would clearly not lead to better service. In a 1983 decision on the application of Yellow Cab Cooperative, Inc., and Luxor Cab Company, the commission granted new passenger stage authority in a market in which carriers were operating at less than 30 percent of capacity. In this decision, the commission found that operating losses, declining patronage, unused vehicle capacity, and increasing fares were indicative not of a saturated market but rather of unsatisfactory service.

According to the commission's Director of the Transportation Division, the change in the commission's policy has resulted in a major increase in the number of passenger carriers. In 1978, there were less than 700 passenger carriers; by 1985 there were over 2,000.

CONCLUSION

The passage of the federal Bus Regulatory Reform Act of 1982 has had little impact on the regulatory functions of the commission. The most significant effect is that the Interstate Commerce Commission can now certify intrastate routes of interstate carriers. The ICC can thus regulate the schedules of the carriers it certifies and receive appeals from these carriers regarding commission decisions. In 1984, state statutes were revised to conform to federal statutes.

The major area of contention between the ICC and the commission, the regulation of the entry of intrastate carriers with inactive interstate authority, is now before the courts. The majority of states continue to regulate passenger vehicle operations.

The commission has changed its interpretation of statutes relating to entry of new passenger carriers into areas already served by other carriers. Specifically, these statutes had been used to grant monopoly rights but are now used to encourage competition. As a result, the total number of carriers subject to the commission's regulation increased from under 700 in 1978 to over 2,000 in 1985.

II

THE PUBLIC UTILITIES COMMISSION COULD IMPROVE ITS REGULATION OF PASSENGER VEHICLE CARRIERS

The Public Utilities Commission (commission) is not effectively regulating passenger vehicle carriers. The commission does not evaluate the fitness or financial stability of applicants for charter party carrier authority, lacks accurate information and procedures for enforcing requirements for insurance, is slow to follow up on complaints, and is not verifying that carriers comply with the commission's suspensions and revocations of their operating authority. As a result, carriers may be operating illegally. Additionally, because of a lack of coordination, the commission's regulation of passenger vehicle operations may cost more than it should.

The Commission Is Not Properly Evaluating Applications for Charter Party Authority

The commission does not perform any review to determine whether applicants have the fitness or financial stability to operate as charter party carriers beyond requiring applicants to show proof of insurance and of a California Highway Patrol (CHP) safety check. In addition, the commission does not compile any historical information on carrier safety that could be used in the evaluation of a carrier's ability to operate safely. As a result, carriers that lack the

financial resources to safely maintain vehicles might receive authority, and carriers with histories of safety problems may be allowed to renew authority.

Public Utilities Code Section 5374 states that before annual charter party operating authority is issued, the commission is to require the applicant to demonstrate that it has financial responsibility and reasonable fitness to initiate and conduct the proposed transportation services. To establish financial responsibility, applicants are required to submit financial information on their assets and liabilities. In a 1963 decision, the commission concluded that a lack of financial resources, in addition to defective vehicles, is a difficult obstacle to overcome. As a result, the commission must consider the possibility of danger to the public from improperly maintained, defective vehicles. The commission defined "reasonable fitness" in a 1976 decision as "more than adequacy or sufficiency in training, competency, or adaptability to the appropriate technical and vocational aspects of the services to be rendered." According to the commission's definition, reasonable fitness also includes "moral trustworthiness, reliance, and dependability."

While the commission still reviews carriers' fitness and financial responsibility as part of the review of passenger stage carrier applications, the commission does not evaluate charter party carrier applicants for fitness or financial stability. According to the Director of the Transportation Division, charter party carriers

need only submit the appropriate application and fees, proof of insurance, and proof of the required CHP inspections of maintenance facilities and vehicles.

When the commission receives notices of insurance cancellations and notices that applicants have failed the CHP's maintenance facility and vehicle inspections, it uses the information as the basis for denying or suspending charter party authority. The commission does not, however, compile this information and use it as a basis for evaluating carrier applications for renewal of authority. As a result, carriers with continuing safety or insurance problems may be allowed to renew their authority to operate. According to the Director of the commission's Transportation Division, this historical insurance and safety information is available, but the commission has never used it either to evaluate applications for the renewal of operating authority or to identify individual carriers that need closer CHP scrutiny because of safety problems.

In 1985, a number of vehicles have been cited or taken out of service because of safety violations. For example, on June 8, 1985, an unannounced bus safety check was conducted along eastbound Interstate 80 at the Antelope scales in northeast Sacramento. Of those carriers that are subject to commission regulation and had vehicles inspected, 50 percent, or 8 of 16 carriers, had vehicles taken out of service for safety violations. One charter bus company had 3 of 5, or 60 percent, of its inspected vehicles taken out of service at the

inspection site after failing the safety inspection. Another carrier was operating without commission authority. This carrier's bus was taken out of service because of the CHP inspection. According to the head of the CHP Motor Carrier Section, which is responsible for the inspection of passenger vehicles and maintenance facilities, carriers with limited financial resources are more likely to have safety problems related to poor maintenance. We did not determine whether a direct link exists between financial resources and vehicle safety.

The Commission Does Not Fully
Enforce Requirements for
Insurance, Safety, and the
Resolution of Informal Complaints

The commission is not fully enforcing the requirements for carrier safety and insurance coverage. In addition, the commission is not adequately resolving informal complaints. The commission's regulation of passenger carriers' safety and insurance is poorly organized, responsibilities are ill-defined, and staff lack written guidelines. Since these conditions contribute to a lack of coordination and errors in processing documents, they may increase the commission's cost to regulate passenger vehicle carriers.

The commission's Passenger Operations Section does not organize its staff according to their actual responsibilities, it does not adequately define responsibilities, and it does not provide its staff with written guidelines to follow. This lack of efficient organization has resulted in a lack of coordination. For example, the

commission maintains file folders containing evidence of insurance coverage, safety inspection reports, and the carrier's application for operating authority. When a carrier has more than one type of passenger transportation authority, the commission maintains separate files for each authority a carrier has been granted instead of a single central file. Certain analysts in the Transportation Division are responsible for files on passenger stage carriers, and other analysts are responsible for files on charter party carriers. This separation of responsibility means that the Transportation Division staff sometimes duplicate each other's tasks and responsibilities.

Furthermore, when a carrier's authority to operate is suspended for lack of insurance or failure to pass a safety inspection, it is necessary for each group of analysts to coordinate with the other to determine if other authorities should be suspended also. The two groups of analysts communicate with each other by sending copies of documents back and forth. Keeping separate filing systems sometimes duplicates the effort of staff to maintain information, but also requires constant coordination to enable staff to take appropriate action. We found that this coordination is lacking. For example, the passenger stage file showed that the commission suspended one carrier's authority for safety reasons, and the charter party file contained a notice from the CHP that the carrier had been reinspected and that the carrier should be allowed to operate. However, this information was not effectively coordinated between the two groups of analysts, and the carrier's authority to operate was not reinstated. Since the

commission does not have a system of control to ensure that all copies of documents sent by one group are received by the other, a lack of coordination results, and the costs of regulation may be higher than they should be.

The commission has not established systems to monitor the quality of its employees' work. In the Passenger Operations Section, we reviewed 23 carrier files and found that 6 of the 23 files (26 percent) contained processing errors. In 2 cases, commission employees failed to properly suspend the operating authority of carriers after receiving a notice of cancellation from the carriers' insurance providers. Because the commission does not monitor its employees' activities, some uninsured carriers operate illegally.

The commission does not resolve consumer complaints promptly or completely. Therefore, consumers are not adequately protected. Consumer complaints are accepted by the commission only when they are made in writing and when the complainant agrees that the letter of complaint may be used in correspondence with the carrier. In resolving a complaint, the commission staff typically sends the complainant's letter to the carrier with a request that action be taken. The commission refers complaints involving unsafe vehicles to the CHP. We reviewed the complaint assignment schedule and found that, as of August 1, 1985, 114 complaints were not closed. Over 40 percent of the complaints were over seven months old.

We reviewed 24 of 181 (13 percent) of the complaints received by the commission since June 1984 to determine whether the commission took effective action to resolve the complaints. We classified these complaints as major if they involved public safety and minor if they were related to poor service. We found that the commission did not effectively resolve 11, or approximately 46 percent, of those complaints we reviewed. Seven of these were major complaints. For example, on December 17, 1984, the commission received a complaint involving an unsafe vehicle and failed to notify the CHP until March 1985. The complaint was still unresolved in August 1985. In addition, the commission closed some cases without ever resolving them.

The Commission Is Not Adequately
Enforcing Suspensions and
Revocations of Operating Authority

The commission does not adequately ensure that carriers whose authority to operate has been suspended or revoked have actually ceased operating. Additionally, the commission has no reliable list of carriers whose authority is suspended or revoked. Consequently, carriers may be operating illegally with uninsured or unsafe vehicles or unpaid fees. We contacted four carriers with suspended operating authority that may be operating illegally.

The commission may suspend a carrier's operating authority for several reasons. If a carrier cancels the required liability insurance, the carrier's insurance provider will notify the commission

of the date on which coverage will expire. If the carrier fails to pass the CHP's safety inspection, the CHP notifies the commission. When the commission receives these notices, it commences suspension action. The commission may also suspend carriers for failing to pay required fees. When the commission suspends a carrier's operating authority for any reason, a copy of the suspension notice is to be sent to the commission's Compliance and Enforcement Branch to verify whether the carrier has ceased operations.

When we attempted to obtain a list of carriers whose operating authority was suspended between January 1, 1985, and August 15, 1985, to determine whether the suspensions were correctly processed. We found that the commission has no reliable list of carriers whose operating authority has been suspended. Although we were given lists of suspended carriers from several commission sources, none of the lists agreed. According to a computer-generated list, 23 carriers were suspended. According to a second list provided by a transportation analyst in the Passenger Operations Section, 14 carriers were suspended. None of the carriers from the second list were on the computer printout. A commission report entitled "Service and Cost Branch Delegated Items Completed During the First (and Second) Quarter(s) of 1985" listed 63 carrier suspensions during that time period. We then went to the two operating units, which actually process the suspension notices, and received lists that together totaled 339 suspended carriers.

From the various lists we were given, we selected 23 cases to review. We found that 4 of the carriers had been reinstated and were incorrectly listed as suspended. In 2 other cases, the commission had wrongly suspended the carriers' operating authority. In another case, a commission employee failed to properly suspend a carrier's authority after receiving a notice of cancellation of insurance from an insurance provider. The commission was unaware that the carrier's authority to operate was not properly suspended because there is no system to account for and coordinate suspension activities.

We contacted 4 carriers that were suspended for lack of insurance or nonpayment of fees and they offered to provide us with passenger service. Each of these carriers could be committing a misdemeanor and be subject to fines and possible jail sentences for illegally continuing to provide passenger service. We have provided a list of these carriers to the commission.

According to a commission attorney, the failure of the commission to enforce suspensions exposes the commission to legal liabilities. For example, when the commission was sued for failing to revoke a carrier's operating authority, a California appeals court held, in a 1975 decision, that when the bus company in question operated without insurance, it was in violation of a statute. The court further ruled that the commission had a mandatory duty to prevent that violation. According to the Chief of the Management Services Division, as a result of the court's decision, the commission settled out of court for approximately \$50,000.

The commission still lacks reliable information on suspensions and does not adequately control the process of suspending carriers' authority. When the commission suspends a carrier's operating authority, a copy of the suspension notice should be sent to the commission's compliance and enforcement branch for follow-up action. However, there are no controls to ensure that the Compliance and Enforcement Branch receives the suspension notice or that any action is taken. Section 815.6 of the Government Code provides that "where a public entity is under a mandatory duty imposed by an enactment that is designed to protect against the risk of a particular kind of injury, the public entity is liable for an injury of that kind proximately caused by its failure to discharge the duty unless the public entity establishes that it exercised reasonable diligence to discharge the duty."

CONCLUSION

The Public Utilities Commission is not effectively regulating the companies and individuals that operate passenger vehicles such as buses, vans, and limousines. The commission is not properly evaluating applications for charter party carrier authority. As a result, unsafe carriers may be able to receive or renew operating authority. The commission is not adequately enforcing the requirements for insurance coverage and safety standards and is not adequately resolving complaints. As a result, some uninsured and unsafe carriers

may operate illegally. In addition, because of the commission's lack of coordination, the costs of regulation may be higher than they should be. Finally, the commission is not verifying that carriers comply with the suspensions and revocations of their operating authority. Consequently, suspended carriers are sometimes operating illegally, and the State may be forced to assume legal liability for their actions.

RECOMMENDATIONS

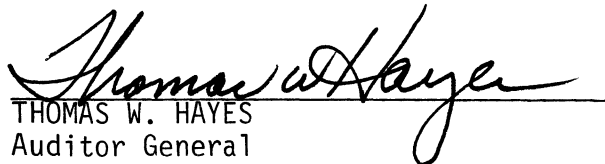
The commission should evaluate the fitness and financial stability of applicants for charter party carrier authority to determine if applicants are financially able and competent to provide service. In addition, the commission should develop and maintain a system to compile safety and insurance histories of carriers and use this information to evaluate carrier fitness at the time of authority renewal.

To improve its regulation of passenger carriers, the commission should implement a system of management controls. Furthermore, the commission should consolidate information on each carrier into one set of files and maintain these files centrally. In addition, the commission should define the individual responsibilities of its staff and establish

performance criteria. Finally, the commission should track suspension actions to ensure that suspended carriers cease operating.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: October 28, 1985

Staff: William S. Aldrich, Audit Manager
Clifton John Curry
Donald A. Davison
Gary Edwin Page
Linda White Lindert



Public Utilities Commission

STATE OF CALIFORNIA

October 22, 1985

FILE NO.

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Thomas W. Hayes, Auditor General
660 J Street, Suite 300
Sacramento, CA 95814
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Dear Mr. Hayes:

Thank you for the draft audit report on the Commission's passenger program and for the opportunity to comment. Although the limited comment time does not allow for a formal Commission response, we offer the following comments organized around the more significant issues the report discusses regarding our procedures, organization, program policies, and responsibilities:

1. User Fee Revenues and Expenses

Considering that the impetus for the audit was concern over the amount of the user fees collected to cover the costs of the Commission's bus regulatory efforts, we are gratified with your finding that "the commission reasonably estimated its costs to regulate passenger vehicle transportation." We note that the audit found no improprieties or inaccuracies in the development of the budget for the Commission's passenger program, nor in the charges made to the budget, nor any errors in the calculation and collection of the fees which fund these programs.

2. Commission Responsibilities and the Federal Bus Act

We concur with the audit finding that most of the Commission's responsibilities for passenger regulation continue in the wake of Federal Bus Regulatory Reform Act. However, we believe the report misses the significance of the Act's impact on the bus industry and state regulatory practices. Although our statutory responsibilities may remain largely intact, the Act has altered the essential thrust of our intrastate bus regulatory program. (1)*

In addition to compromising our ability to implement an independent state policy, the Act has imposed new requirements and deadlines on our consideration of route abandonments and fare increases requested by interstate carriers and heightened the importance of the Commission's representation of California in federal proceedings. Both of these aspects of the Act have added strain to our limited staffing.

*The Auditor General's comments on specific points contained in the commission's response begin on page 37.

3. Liberalized Entry Policy

In the mid-1970's, the Commission became dissatisfied with the public impacts of historical interpretations of statutory entry provisions which restricted the development of new transportation services. The Commission determined after careful consideration and debate that a more liberal entry policy would provide the public with a greater variety and number of transportation services. Parallel policy shifts were underway at the federal level with the Interstate Commerce Commission and Congress also acting to facilitate increased competition for interstate services. Our entry standards for charter carriers, for example, are essentially identical to those set forth in the Federal Bus Regulatory Reform Act where fitness is defined as consisting of adequate insurance coverage and safety clearances.

4. Increase in Regulated Carriers and Commission Workload

The number of regulated passenger carriers in California rose from about 400 in 1975 to over 2400 in 1985. (The figure of 2000 used throughout the report should be corrected to 2400 and the base should be changed from 700 in 1978 to 400 carriers in 1975 when the growth really began to accelerate.) This six-fold increase has meant a parallel increase in workload. Staffing resources, however, did not keep pace. ②

Recognizing that the increase in workload was vastly outstripping our staffing, we contracted for a review of the Division's systems and processes by the Program and Compliance Evaluation Division of the Department of General Services to identify opportunities for process improvement and/or automation. Their report confirmed our belief that several of the manual processing systems employed to carry out the passenger program (e.g. insurance certificates) were prime candidates for automation.

The Commission's Data Processing Branch was then assigned to do three things: (1) Further analyze the insurance monitoring function; (2) Consolidate and improve the Passenger Carrier Files; and (3) Analyze the requirements for a Transportation Management Information System. In 1983, the top priority for the Data Processing Branch was the Commission's Case Information System. In 1984, the Data Processing Branch started implementation of a new, consolidated Passenger Carrier File. This admittedly is only a first step toward automation, but it is a start in the right direction. A Feasibility Study Report for development of a comprehensive Transportation Management Information System has been submitted to the Department of Finance's Office of Information Technology for their approval.

In summary, we are now midway in this computerization effort which will ultimately result in an interactive data base management system for all passenger carriers. This system will help us cope with workload increases and eliminate many of the processing errors your staff identified.

5. Insurance Processing

Contrary to the report's conclusion, it is not an error to fail to suspend a passenger stage authority if the insurance company cancels the carrier's charter party insurance certificate. The two insurance coverage certificates are legally quite distinct and the insurance company remains bound to honor claims on the passenger stage side even if it cancels the insurance certificate on the charter side. One type of authority should not be suspended just because an insurance cancellation notice is received on the other type of authority. There is no legal basis for such action and it would be contrary to the public's need for transportation to suspend insured services. (3)

We must admit that errors occur in the processing of the thousands of documents that are involved in this program. Random reviews are conducted of all insurance files for quality control. These reviews find errors from time to time which are promptly corrected. We are distressed at the error level your staff found as it far exceeds our experience. If the auditors will advise us which files they believe contain processing errors, it might help us identify any systemic deficiencies in our insurance processes and/or quality control procedures and will allow us to correct the specific errors found. (4)

6. Consumer Complaints

We agree with the criticisms regarding the handling of consumer complaints. Lack of adequate staffing forced the decision to assign available staffing on what appeared to be higher priority matters (e.g. formal Commission proceedings, safety/insurance matters, and service abandonments). Consumer complaints were distributed among all the passenger staff to handle along with their other workload and, regrettably, received relatively low priority. Recently, we have begun to assign this work in a more focused fashion to ensure the more significant of these complaints receive prompt attention. However, overall staffing still constrains our ability to act responsively to the broad variety of other consumer complaints we receive.

7. Suspended Carriers

The references to a lack of a reliable listing of suspended carriers inaccurately imply we cannot determine which carriers are suspended. When a carrier's authority is suspended for an insurance deficiency, its file is placed in numerical order on designated file shelves. It is a simple matter to look at these shelves and see directly which authorities are then in suspense. We have used this physical system for many years in performing our insurance work, and it has proven very reliable. However, with the six-fold increase in the number of carriers we regulate, we recognize that this manual system of identifying the status of authorities is no longer adequate. The lack of reliability in the improvised lists provided the audit staff will be corrected

through the office automation project already underway. ⑤

We share your concern that suspended carriers may be operating illegally even after they each receive written notification of the Commission's action and phone and other contacts are made by our enforcement staff. However, the carriers your staff contacted could have been operating legally exempt round-trip sightseeing, interstate or intra-city services. We have not yet been provided with the identity of these carriers so that investigation and appropriate action can be taken. ⑥

8. Organization

There are numerous ways to organize to get work done. In past years, when the ratio of staff to workload was more favorable, we organized on more functional lines which allowed for greater specialization. As workload increased, we thought a more flexible organization that was not rigidly functional would better respond to rapidly changing program and project priorities. As we move further into our office automation program, we will be examining potential efficiencies of alternate organizational structures.

There is no duplication of work as implied by the report's reference to the handling of passenger stage insurance and charter party insurance by separate persons. We administer these two similar but independent programs with different people to facilitate assisting carriers and their insurance companies with meeting the insurance regulations. There is not one single task that is performed any more often than it needs to be with these programs set up as they are presently. ⑦

9. Definition of Work Duties

Staff work responsibilities are not ill-defined in the sense that staff lacks understanding of their duties. To the contrary, most of the staff assigned to these programs have been performing their duties for many years. Accordingly, no implication should be drawn from the audit report that staff does not know how to do their jobs. It is true that our written definitions of these duties are in some cases outdated. Additionally, we acknowledge that it would be desirable to bring our many existing written procedures together in one easily referenced manual and to develop additional ones for areas where they are lacking. As time permits, we will update our written duty statements and expand and better organize our written work procedures.

10. Merging of Files into a Carrier-By-Carrier System

The basic intent of this suggestion is being implemented through our office automation project which will establish an interactive data base management system to serve as the central file of all key data on each carrier.

11. Enforcement

We agree that enforcement should be made more effective. We have taken several actions toward this end including:

- o Instituting a toll-free telephone "HOTLINE" for complaints against any illegal operators.
- o Initiating a program of surprise enforcement sweeps at transportation centers, including San Francisco and Los Angeles International Airports. This results in our catching unauthorized operations at the locations where they are most likely to be found.
- o Working with the California Highway Patrol in a program of surprise roadside checks along the major highways in California. This enables us to check dozens of operators in a single session.

Unlike trucking companies, passenger carriers do not leave a paper trail of documentary evidence to prove illegality. Without the testimony of a disgruntled passenger, the staff has to commit considerable time and resources to ride on the conveyance as a fare-paying passenger in order to obtain evidence of illegal operation. To overcome these obstacles, the Commission has sponsored legislation which will increase the efficiency of our enforcement efforts. Two of the more noteworthy measures enacted into law this past session are:

- (1) Chapter 806, Statutes of 1985 (S.B. 215)
Makes it a misdemeanor to advertise services as a passenger carrier without having valid operating authority. Also requires charter party carriers when advertising to disclose their PUC assigned identification number. This will enable us to cite illegal carriers advertising their services. The inability to advertise will dry up much of the illegal carriers' source of revenue. Brings carriers operating roundtrip sightseeing services back within the regulatory system so they must again conform to permit, insurance, and safety inspection requirements. This will ease identification of illegal carriers.
- (2) Chapter 462, Statutes of 1985 (A.B. 414)
Authorizes certain staff of the Transportation Division to issue misdemeanor citations so we will not have to spend countless hours convincing convincing and assisting overburdened district attorneys to prosecute unlawful carrier operations.

We concur with the recommendation that there should be feedback to the passenger program staff of the enforcement staff's action

on matters referred to them. We have just implemented a system to close the information loop by adding appropriate procedures to the existing manual for this work.

The combination of the above legislative actions and program initiatives should result in improved enforcement. However, based on our experience enforcing transportation regulations for over 23,000 motor carriers of property, we know the effectiveness of an enforcement program reflects the combination of "tools" (e.g. legal authority to issue citations) and the staffing available to use those tools. We now have more of the necessary tools to do the job, but the limited staffing available for passenger enforcement work remains a problem.

12. Safety and Insurance Histories

We do not agree with the audit report's recommendation that the Commission create and maintain files on the historic safety of carriers. The Public Utilities Code specifically provides that safety is the responsibility of the California Highway Patrol and that the Commission shall not regulate the safety of passenger carriers (Sections 768 and 5371.1). It would be costly and inefficient for our staff to try to duplicate the work of the CHP and it would be inappropriate for the Commission to override the CHP's judgement in this area.⑧

The fact that we have not tried to preempt the CHP's statutory authority over safety matters should not be taken to imply any lack of concern by the Commission with public safety. Far from it, a written safety recommendation by the CHP must be submitted before any passenger carrier is allowed to operate pursuant to any new or renewed authority issued by the Commission, and the Commission promptly suspends or revokes a carrier's authority upon such recommendation by the CHP.

Although we do maintain historical insurance records for each carrier, past cancellations are not used to deny any carrier a renewal of its authority to operate. Insurance coverage can be cancelled for any one of a large variety of reasons, many of which are not the fault of the insured. The purpose of requiring insurance coverage is to protect the public. If the insurance is obtained and evidence of coverage is filed with the Commission, the public is being afforded the intended protection.

Summary

In conclusion, while there are certain areas of the report with which we disagree, I believe these differences of opinion stem from the inherent difficulty of developing a full understanding of any program's policy nuances and administrative intricacies in the limited time available to your audit staff. We concur with many of the report's recommendations and will strive to implement them as quickly as possible. I hope that this response aids in providing additional perspective to the report's contents.

Very truly yours,


VICTOR WEISSER, Director
Transportation Division

**THE PUBLIC UTILITIES COMMISSION
TRANSPORTATION REIMBURSEMENT ACCOUNT**

This appendix provides detailed information concerning the expenditures by the Public Utilities Commission (commission) for the regulation of passenger vehicle carriers.

The commission's regulation of passenger vehicle transportation is paid for through a user fee based on the gross intrastate revenues of the regulated carriers. In fiscal year 1984-85, the commission's total expenditures for the regulation of passenger vehicles were approximately \$2 million, and carriers were required to pay .7 percent of their gross intrastate revenues to the Public Utilities Commission Transportation Reimbursement Account (PUCTRA). The legislation that created the user fee allows carriers to increase their fares to cover the costs of the user fee, thereby passing the costs on to the passengers.

We obtained the direct, indirect, and operating and equipment expenses the commission uses to determine the user fee for fiscal year 1984-85 and found that the commission reasonably estimated its costs to regulate passenger vehicle transportation. We determined that the specific cost to regulate charter party carriers was \$598,164, and that the cost to regulate passenger stage carriers was \$1,368,655. We also reviewed 61 applications for various types of passenger stage authority approved since January 1984 and determined the direct costs associated with each application.

Chapter 323, Statutes of 1983, amended the Public Utilities Code to authorize funding of the commission from fees imposed upon each regulated utility, common carrier, and related business. Public Utilities Code Section 403 established the PUCTRA, and Sections 421 and 422 require the commission to annually establish the fees, subject to Department of Finance approval, to cover regulatory costs associated with each class of carrier. Additionally, Section 404 allows each passenger vehicle operator to adjust its rates or charges for intrastate services to cover the cost of the user fee.

The commission sets the PUCTRA fee based on projected gross revenues for passenger stage carriers and charter party carriers and the budgeted expenditures for their regulation. For fiscal year 1983-84, the PUCTRA fee was .74 percent of gross intrastate revenues; in 1984-85 it was .7 percent; in 1985-86 it is 1.0 percent of gross revenues.

We used the commission's Standard Time Reporting System to determine the direct and indirect costs of regulating passenger stage and charter party carriers in fiscal year 1984-85. The Standard Time Reporting System is a budgetary and accounting tool to record work performed by all employees and charge it to an appropriate fund source. Commission employees maintain their own timesheets by attributing their work hours to a variety of fund codes, work codes, utility codes, and codes for legal and administrative proceedings. The commission's Data Processing Branch can then use the timesheets to determine the direct costs and indirect costs associated with the commission's regulatory responsibilities. Fund codes, which can be used to calculate direct costs, are for industries the commission regulates, such as passenger stage corporations and charter party carriers, and work codes are for specific activities such as analyzing applications or processing insurance forms. Utility codes are used to distinguish specific modes of transportation, such as airport access services or home-to-work services, and the proceeding codes are used to identify a specific application or case.

Indirect costs are calculated in the following way. Employees, primarily supervisors and clerical staff who cannot directly attribute their work to a single fund code, use a special fund code on their timesheets that can be used to calculate indirect costs. The computer will then pro rate that supervisor's time over all the time spent on all work codes by the employees under the supervisor's control. The clerical staff pro rates its time based on the time spent on each fund by employees they support.

We estimated operating expenses and equipment costs by using the commission's pro rata formula to spread the costs over all divisions based on their share of direct and indirect costs.

Table A-1, on the next page, shows the commission's direct costs, indirect costs, and operating expenses and equipment costs in fiscal year 1984-85 for regulating passenger stage and charter party carriers.

TABLE A-1
COSTS TO REGULATE
PASSENGER STAGE AND CHARTER PARTY CARRIERS
FISCAL YEAR 1984-85

	<u>Direct</u>	<u>Indirect</u>	<u>Operating Expenses and Equipment</u>	<u>Total</u>
Passenger Stage	\$ 736,596	\$ 376,132	\$ 255,927	\$ 1,368,655
Charter Party	<u>354,306</u>	<u>132,006</u>	<u>111,852</u>	<u>598,164</u>
Total	<u>\$1,090,902</u>	<u>\$508,138</u>	<u>\$367,779</u>	<u>\$1,966,819</u>

Source: Data Processing Branch, Public Utilities Commission; we did not audit these figures.

As Table A-1 shows, in fiscal year 1984-85, the expenditures for direct costs, indirect costs, and operating expenses and equipment was \$1,368,655 to regulate passenger stage corporations and \$598,164 to regulate charter party carriers. The total cost to regulate passenger carriers was \$1,966,819.

Table A-2 below shows the commission's direct costs for processing the 61 passenger stage corporation applications it has approved since January 1984.

TABLE A-2
COSTS TO PROCESS 61 PASSENGER
STAGE CORPORATION APPLICATIONS

	<u>Number of Applications</u>	<u>Total Costs</u>	<u>Average Cost</u>	<u>Range of Costs</u>
New Authority	6	\$25,320	\$4,220	\$298 to \$19,554
Airport Access	30	\$38,804	\$1,293	\$88 to \$4,982
Home-to-Work	8	\$12,796	\$1,599	\$741 to \$3,113
Fare Increase	17	\$59,570	\$3,504	\$441 to \$12,583

Source: Data Processing Branch, Public Utilities Commission; we did not audit these figures.

As shown in Table A-2, these applications were for authority to operate as a passenger stage corporation (new authority); authority to provide service from a specific community to a specific airport (airport access); authority to provide commuter service (home-to-work); authority to increase fares by a specific amount (fare increase). Further, Table A-2 shows the number of applications for each of the four types of authority and the total direct costs that commission employees attributed to their work on each type of application. The average cost for each type of application is also shown in Table A-2, as well as the range of costs for processing each type of application, from the least expensive to the most expensive.

**AUDITOR GENERAL'S COMMENTS ON
THE PUBLIC UTILITIES COMMISSION'S RESPONSE**

- ① We have noted all of the major impacts and changes due to the Bus Reform Act on pages 9-14 of this report.
- ② The reference to "2,000 carriers" is based on the commission's own data: the July 1985 listing of Passenger Stage Carriers shows 214 carriers, and the July 1985 listing of Charter Party Carriers shows 1,973 carriers, a total of 2,187. In addition, information provided to us by Greyhound Lines, Inc., suggests that the commission's own figures are inaccurate. Greyhound attempted to contact carriers listed in the commission's listing of charter party carriers. Of the 531 carriers Greyhound sent letters to, 100 were returned (almost 19 percent) because either the addresses were incorrect or the addressees were unknown. This return rate suggests that many carriers listed by the commission are no longer in business and that the commission's list is overstated. Furthermore, the 19 percent return rate of Greyhound's letters suggests that the commission lacks the most basic systems to monitor the carriers it is responsible for.
- ③ We did not conclude that it is an error to fail to suspend a carrier's passenger stage authority when its charter party insurance is cancelled. However, on page 24, we point out that the commission employees failed to properly suspend the operating authority of two carriers after receiving notice that their insurance was cancelled. Based on the commission's own policies and on the judgement of the employee responsible for insurance suspensions, we concluded that these carriers should be suspended.
- ④ The commission does not have a system of quality control. As we noted on page 24, the commission has not established systems to monitor the quality of its employees' work. As a result, errors are made and not detected.
- ⑤ Contrary to the assertion of the division director, the system currently used is ineffective, as we clearly show on pages 26-27 of this report.
- ⑥ The methodology for our review included identifying the types of service the carrier was no longer allowed to provide because of the commission's suspension. In each case, the carrier offered to provide us with service that had been suspended by the commission. We also confirmed the carriers' status with commission staff.

- ⑦ We clarified the report to indicate that our main concern was a lack of coordination. On pages 22-23 of the report, we point out that the commission staff is not organized according to actual responsibilities, that the commission does not adequately define responsibilities, and that it does not provide staff with written guidelines. These inefficiencies have resulted in a lack of coordination, which leads to errors in processing. As a result of these errors, the costs of regulation may be higher than they should be.
- ⑧ We do not recommend that the commission duplicate the work of the CHP. As noted on page 21 of this report, we point out that the commission does not use the CHP's information to deny a renewal of authority to carriers with histories of safety problems. On page 29, we recommend that the commission develop and maintain a system to compile safety and insurance histories of carriers and use this information to evaluate carrier fitness at the time of authority renewal.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps