STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

February 11, 2014

The Honorable John Allen, Chair
Joint Legislative Audit Committee

The Honorable Chester Crandell, Vice Chair
Joint Legislative Audit Committee

Dear Representative Allen and Senator Crandell:

Our Office has recently completed a 24-month followup of the Department of Fire, Building and Life Safety regarding the implementation status of the 30 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2011 (Auditor General Report No. 11-13). As the attached grid indicates:

- 10 have been implemented;
- 1 has been implemented in a different way;
- 17 are in the process of being implemented; and
- 2 have not been implemented.

Unless otherwise directed by the Joint Legislative Audit Committee, our Office will conduct a 36-month followup with the Department on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ss
Attachment

cc: Gene Palma, Director
Department of Fire, Building and Life Safety

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

Department of Fire, Building and Life Safety
Auditor General Report No. 11-13
24-Month Follow-Up Report

Recommendation	Status/Additional Explanation
Finding 1: State Fire Marshal should ensure adequate inspection coverage and establish fees to cover costs	
1.1 The Office should implement and use its new inspection database to better manage, track, and prioritize inspections conducted by the Office and ensure oversight of inspections conducted by local fire authorities that have agreements to conduct inspections on the Office's behalf. Specifically, the Office should:	**Implementation in process** Rather than implement a new database, the Office of the State Fire Marshal (Office) modified its existing inspection database to better manage, track, and prioritize its inspection activities. See the explanations for recommendations 1.1a through 1.1c.
a. Track all inspection activities and specific information on violations found during inspections in its database.	**Implemented at 24 months**
b. Establish a system within its database to prioritize inspections based on fire risk, in conjunction with recommendation 1.4.	**Implementation in process** The Office has begun establishing a system within its database to prioritize inspections based on fire risk. Under this system, facilities are assigned a fire-risk score that determines the minimum inspection frequency for each facility. According to the Office, facilities are assigned a fire-risk score when a new facility is built or when the Office conducts its regular fire safety inspections, and these scores will be recalculated each time an inspection occurs to ensure that the fire-risk score will match the changing conditions at inspected facilities. However, not all facilities have been assigned a fire-risk score. In addition, the Office reported that because of limited resources, it continues to prioritize inspections primarily based on new construction, propane tank burial/removal, complaints, and the fire-risk score of facilities near scheduled inspections instead of inspecting facilities on a regular schedule based on the fire-risk score it has assigned.
c. Identify buildings in its database that are covered by agreements with local fire authorities, ensure newly constructed buildings in jurisdictions covered by the agreements are entered in its database, and enter inspection data for these buildings in its database.	**Implemented at 24 months**
1.2 The Office should solicit additional agreements with local fire authorities or private vendors to provide greater inspection coverage that would significantly reduce its inspection or plan review workload and/or reduce inspection costs, such as travel time.	**Implemented at 24 months**

Recommendation	Status/Additional Explanation
1.3 The Office should establish and implement an oversight process for agreements with local fire authorities and private vendors, and ensure that agreements have been signed by both the Office and the agreement holder. This process should include enforcing the Office's quarterly inspection report requirement, reviewing the information from these reports, and entering inspection information into its database, in conjunction with recommendation 1.1.c.	**Implemented at 24 months**
1.4 As staff resources permit, the Office should establish a process to prioritize inspections based more fully on fire risk for buildings that have not been delegated to local fire authorities, which would allow it to determine how frequently buildings should be inspected, and then prioritize inspections accordingly based on available resources.	**Implementation in process** See explanation for recommendation 1.1b.
1.5 The Department should develop or adopt a structured approach to evaluate current fees and propose new fees that would recover office costs. In developing this approach, the Department should do the following:	**Implementation in process** The Department is adopting an activity-based approach for evaluating and proposing fees based on the cost of providing a service. See the explanations for recommendations 1.5a through 1.5d.
a. Assess the efficiency of its operations to ensure costs are as low as possible and document the results of its assessment. The Department should seek to minimize costs where possible.	**Implementation in process** As discussed in the explanation for recommendation 1.5b, the Department has implemented measures to track staff time spent on various activities. In addition, the Department reported that when it conducts scheduled inspections, it will also inspect nearby facilities based on fire-risk scores to minimize the time between inspections for higher risk facilities. The Department reported that it will continue its efforts to streamline its procedures and improve the efficiency of its operations.
b. Develop a method for tracking and allocating relevant department costs, including both direct and indirect costs.	**Implementation in process** The Department has developed methods to track and allocate department costs. For example, the Department is using software programs to track the time that staff spend on various activities to determine direct personnel costs for those activities. It also developed a method to allocate some indirect costs, such as rent. However, the Department has not finalized its approach to identify other indirect costs, such as costs for general information technology support.
c. Identify the actual costs for specific activities for which fees are charged to help ensure fees are appropriate and equitable.	**Implementation in process** The Department has analyzed the costs for plan reviews, inspections, and related administrative tasks. However, the Department reported that it still needs to conduct more detailed analyses to precisely identify the costs of these activities.

Recommendation	Status/Additional Explanation
d. Consider the effect that proposed fee changes may have on inspected facilities and obtain their input when developing the proposed fees.	**Implementation in process** The Department indicated that it considered the effect of proposed increases to several existing fees, such as fees for obtaining construction permits, through a review of proposed fee increases by the State Fire Safety Committee (Committee), which represents fire chiefs, building officials, and the public (see the explanation for recommendation 1.6 for additional information). However, the Department indicated that it has not yet sought input from inspected facilities regarding routine fire safety inspection fees because the Department does not yet have statutory authority to charge fees for routine fire safety inspections.
1.6 Once the approach is developed or adopted, the Department should use it to propose new fees to the State Fire Safety Committee that recover its costs. If proposed fees are significantly higher than current fees, the Department should consider recommending increasing fees gradually.	**Implementation in process** After analyzing its costs, the Department proposed increases to several existing fees, such as fees for obtaining construction permits. The Committee approved these fee increases in June 2012. According to the Executive Director, these fee increases helped move the Department toward recovering its costs. However, the Department has not yet analyzed or proposed new fees for routine fire safety inspections.
1.7 Once the Department has developed its proposed fees and obtained approval for the proposed fees from the State Fire Safety Committee, it should seek legislation modifying statute that allows it to charge the proposed fees to recover inspection costs, similar to local fire authorities.	**Not implemented** The Department has not proposed fees to recover the cost of routine fire safety inspections and has not sought legislation modifying statute to allow the Department to charge fees for these inspections. However, the Department reported that it is researching approaches to modify statute that would allow it to charge fees to recover inspection costs, similar to local fire authorities, and plans to implement this recommendation.
1.8 The Department should work with the Governor's Office to solicit applications and appoint members to the State Fire Safety Committee.	**Implemented at 6 months**

Recommendation	Status/Additional Explanation
Finding 2: Department should ensure fees fully cover manufactured housing and modular building regulatory costs	
2.1 To ensure its fees more fully reflect its costs, the Department should develop or adopt a structured approach to evaluate current fees and propose new fees to the Board that would fully cover all department costs related to the regulation of the manufactured housing and modular building industries, and ensure that specific fees are appropriate for the specific activities. In developing this approach, the Department should do the following:	**Implementation in process** As previously stated, the Department is adopting an activity-based approach to evaluating and proposing fees based on the cost of providing a service. See the explanations for recommendations 2.1a through 2.1c.
a. Continue its efforts to assess the efficiency of its operations to ensure costs are as low as possible and document the results of its assessment. As the Department assesses the efficiency of its operations, it should continue seeking to minimize costs where possible.	**Implemented at 24 months**
b. Develop and finalize a method for tracking and allocating relevant department costs, including both direct and indirect costs. For example, to track personnel costs, the Department could use its new time accounting system and its revised monthly time-tracking reports to determine the amount of time staff spend on activities that support the regulation of the manufactured housing and modular building industries.	**Implementation in process** The Department is in the process of finalizing its method to track and allocate department costs. For example, although the Department tracks some personnel costs with a time accounting system, it is finalizing implementation of another computer system to track other personnel costs. In addition, although the Department has determined how to allocate indirect costs for two key activities, it has not determined a method to allocate indirect costs for other activities. Further, the Department has not finalized its approach to identify all indirect costs, such as some general office costs.
c. Identify the actual costs for specific activities for which fees are charged to help ensure fees are appropriate and equitable. In addition, fees should take into account factors that affect the cost of a specific activity.	**Implementation in process** The Department has begun to develop cost analyses of its activities for which fees are charged and has identified the costs of installation inspections and plan reviews of manufactured homes and modular buildings. However, the Department has not yet analyzed all fees to ensure that they are appropriate and equitable. In addition, a department official reported that the Department still needs to determine how fees should take into account factors that affect the cost of certain activities, such as the varying amounts of time it takes to conduct different types of inspections for an installation permit.

Recommendation	Status/Additional Explanation
2.2 Once developed or adopted, the Department should use this approach to assess its fees and propose new fees to the Board. If proposed fees are significantly higher than current fees, the Department might recommend increasing fees gradually. The Board should consider the effect that proposed fee changes may have on the affected industries and obtain their input when reviewing the fees.	**Implementation in process** The Department has not yet fully developed its approach for evaluating fees (see the explanation for recommendation 2.1). However, it proposed new fees to the Board during meetings in April 2012 and May 2013 based on cost analyses of direct and indirect costs for certain activities. In these meetings, the Board decided to gradually increase fees toward full-cost recovery.
2.3 The Department should develop and implement policies and procedures for using the method to propose the annual fees to the Board.	**Implementation in process** Although the Department has not yet fully developed its approach for evaluating fees, it has begun to create guidelines for proposing fee increases.
Finding 3: Department has incorrectly spent some Mobile Home Relocation Fund monies	
3.1 The Department should continue with its efforts to establish a methodology for charging appropriate direct and indirect costs to the Mobile Home Relocation Fund by:	
a. Identifying and tracking the costs associated with activities that can be paid from the Fund;	**Implementation in process** The Department is identifying and tracking the costs associated with activities that can be paid from the Mobile Home Relocation Fund (Fund). However, the Department is still in the process of documenting its method to allocate indirect costs and has not finalized its approach to identify all indirect costs, such as some general office costs.
b. Tracking the actual time employees spend on all activities that can be paid from the Fund; and	**Implemented at 24 months**
c. Considering the GAO's assistance as needed to help ensure that it charges appropriate costs to the Fund.	**Not implemented** The Department reported that it has not yet requested the GAO's assistance to help ensure that appropriate costs are charged to the Fund. The Department believes that its current efforts will result in appropriate charges to the Fund. However, the Department indicated that it would consider the GAO's assistance if its efforts do not fulfill their purpose.

Recommendation	Status/Additional Explanation
3.2. The Department should develop and implement policies and procedures to ensure that the costs charged to the Fund accurately reflect the activities it needs to perform to support the Fund's purpose and that resulting expenditures are periodically reviewed. For those expenditures that were incorrectly paid from the Fund, the Department needs to determine how they should be paid in the future.	**Implemented at 24 months**
3.3 The Department should consult with its assistant attorney general to determine whether any money should be repaid to the Fund, and if so, the amount to be repaid and an appropriate timetable for repayment.	**Implementation in process** The Department reported that it consulted with its assistant attorney general in February 2012 to determine whether any money should be repaid to the Fund and, if so, the amount to be repaid. The Department reported that it requested an update from the Arizona Attorney General's Office in April 2013 and that a decision has yet to be made.

Sunset factor #2 The extent to which the Department has met its statutory objective and purpose and the efficiency with which it has operated

1. The Office of Manufactured Housing should continue its efforts to monitor agreements with local jurisdictions for conducting manufactured home and modular building inspections by collecting monthly reports and ensuring all local agencies adequately enforce installation standards.	**Implemented at 6 months**

Sunset factor #4 The extent to which rules adopted by the Department are consistent with the legislative mandate

1. The Department should adopt administrative rules for the payment of monies from the Mobile Home Relocation Fund as required in A.R.S. §33-1476.01(H).	**Implemented at 24 months in a different way** The Department believes that adopting administrative rules for the payment of monies from the Mobile Home Relocation Fund is not necessary. Instead, the Department indicated that it can rely on an internal policy that specifies that the Department will issue a check directly to the installer, after the installer provides specific documentation that the relocation is complete.
2. The State Fire Safety Committee should adopt rules for the administration and allocation of monies from the Arson Detection Reward Fund as required in A.R.S. §§41-2146(E) and 41-2167(A). Guidance adopted in rules for the administration of the fund should be consistent with statutory requirements. Rules for the allocation of fund monies should specify how monies for this fund's two purposes—providing reward monies and promoting awareness for the fund—will be allocated.	**Implementation in process** In February 2013, the Department requested an exemption to the Governor's moratorium on rulemaking in order to adopt rules for the administration and allocation of monies from the Arson Detection Reward Fund. As of November 2013, the Department reported that it had not yet received a response to its request.

Recommendation	Status/Additional Explanation
Sunset factor #6 The extent to which the Department has been able to resolve complaints that are within its jurisdiction	
1. The Department should better monitor its timeliness for resolving consumer complaints by ensuring its management reports assess compliance with the required 60- and 120-day time frames.	**Implemented at 24 months**