STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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May 16, 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 an initial followup of the Department of Environmental Quality—Underground Storage Tanks Financial Responsibility regarding the implementation status of the 14 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2013 (Auditor General Report No. 13-06). As the attached grid indicates:

- 5 have been implemented;
- 8 are in the process of being implemented; and
- 1 legislative recommendation has not been implemented.

Our Office will conduct an 18-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: Henry Darwin, Director
Department of Environmental Quality

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Department of Environmental Quality—Underground Storage Tanks Financial Responsibility
Auditor General Report No. 13-06
Initial Follow-Up Report

Recommendation	Status/Additional Explanation
Finding 1: Department continues to fail to ensure that underground storage tank owners and operators meet financial responsibility requirements	
1.1 The Department should continue its efforts to improve its financial responsibility program, including:	
a. Recording UST owner and operator compliance with financial responsibility requirements in its database only after complete and accurate evidence of financial responsibility is received and following up with the owner, operator, or insurer to request the information when it is not provided;	**Implementation in process** The Department has begun developing tools and implementing processes to ensure that complete and updated evidence of owner and operator compliance with financial responsibility requirements is obtained and verified before it is recorded in the UST database. For example, the Department is developing a checklist that staff members will use to ensure they are obtaining and verifying all required documentation. The Department has also begun following up with owners, operators, and insurers when it receives insufficient documentation in order to request the correct documentation. To facilitate this process, the Department has developed documentation-request template language that it can insert into e-mails and letters. In addition, the Department has begun auditing its existing hard-copy UST financial responsibility files to identify those with incomplete and/or expired documentation. As of March 25, 2014, the Department reported that it had completed auditing 656 of approximately 9,000 total files. According to the financial responsibility program manager, the Department plans to follow up with those owners and operators to request updated evidence of financial responsibility.
b. Improving the database usefulness by modifying programming to capture financial responsibility provided by operators, allowing staff to update financial responsibility information by facility, tracking when financial responsibility documentation is received, and fixing the function that deletes records when USTs have been permanently closed and no longer require financial responsibility or when an error has been made, such as linking the wrong owner identification number to a UST;	**Implementation in process** The Department has begun making the recommended database improvements. For example, staff can now track when the Department has received financial responsibility documentation. The Department also indicated that it will make changes to the database allowing staff to update financial responsibility information by facility and operator beginning in August 2014. According to the Department, it has begun internal discussions to fix the function that deletes records when it permanently closes USTs, which then no longer require financial responsibility.
c. Conducting outreach to educate stakeholders about financial responsibility requirements and mechanisms available to comply with the requirements;	**Implemented at 6 months**

Recommendation	Status/Additional Explanation
d. Ensuring department inspection and compliance staff have a clear understanding of the financial responsibility requirements and documentation needed to comply with them;	**Implemented at 6 months**
e. Leveraging partnership opportunities to provide outreach to stakeholders and learn about strategies used in other states to improve financial responsibility compliance, which should be communicated to the Department's financial responsibility program manager; and	**Implemented at 6 months**
f. Developing and implementing a strategic plan for the program.	**Implementation in process** The Department created a fiscal year 2014 strategic plan for the financial responsibility program, which consists of ten goals and the strategies for achieving them. Although the Department has begun implementing several of the strategies, it has not regularly reviewed and documented its progress toward meeting the goals. The financial responsibility program manager reported that she plans to assess and report on the Department's progress in meeting the fiscal year 2014 goals in the fiscal year 2015 strategic plan.
1.2 The Department should develop and implement updated policies and procedures that:	
a. Specify that UST registration should not be approved without evidence of financial responsibility;	**Implementation in process** Although not yet developed, the financial responsibility program manager reported that the Department intends to develop policies and procedures specifying that it should not register USTs without evidence of financial responsibility. Meanwhile, in March 2014, the Department trained UST registration staff to only approve registration after evidence of financial responsibility has been submitted and approved by the financial responsibility manager.
b. Define expectations for communication and coordination between the UST registration and UST financial responsibility functions;	**Implementation in process** In February 2014, the Department conducted a detailed review of its UST processes, which included communication and coordination between the UST registration and financial responsibility units. According to the financial responsibility program manager, the Department will use this information to develop standard operating procedures, which it expects to finalize in June 2014.
c. Explain how to evaluate the evidence of financial responsibility to ensure it meets state and federal requirements;	**Implementation in process** The Department has begun creating a set of documents that explain in detail how to evaluate the various types of acceptable financial responsibility evidence. According to the financial responsibility program manager, the Department expects to finalize these documents in June 2014.

Recommendation	Status/Additional Explanation
d. Establish expectations and time frames for monitoring UST owner and operator compliance with financial responsibility requirements; and	**Implementation in process** The Department has begun drafting standard operating procedures that establish time frames and expectations for monitoring owner and operator compliance with financial responsibility requirements. According to the financial responsibility program manager, the Department expects to finalize these procedures in June 2014.
e. Specify actions to be taken when a UST owner or operator does not meet the requirements.	**Implementation in process** The Department has begun drafting standard operating procedures that specify actions to be taken when a UST owner or operator does not meet financial responsibility requirements. According to the financial responsibility program manager, the Department expects to finalize these procedures in June 2014.
1.3 The Department should ensure that its staff accurately determine whether financial responsibility evidence meets requirements and take appropriate and timely actions when UST owners and operators do not submit evidence of financial responsibility, when the evidence does not meet requirements, or when financial responsibility needs to be updated by:	
a. Developing and implementing training for financial responsibility staff, including refresher training, and	**Implemented at 6 months**
b. Developing and implementing supervisory review practices.	**Implemented at 6 months**
1.4 The Legislature should consider modifying statutes to require insurance companies to inform the Department before and/or after UST financial responsibility insurance is terminated, canceled, or not renewed.	**Not implemented** As of May 2014, the Legislature had not considered any legislation addressing this recommendation.