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July 27, 2016

The Honorable John Allen, Chair
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair
Joint Legislative Audit Committee

Dear Representative Allen and Senator Burges:

Our Office has recently completed an initial followup of the Arizona Department of Environmental Quality—Vehicle Emissions Inspection Program regarding the implementation status of the 11 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in October 2015 (Auditor General Report No. 15-119). As the attached grid indicates:

- 1 has been implemented;
- 7 are in the process of being implemented; and
- 3 are not yet applicable.

Our Office will conduct an 18-month followup with the Arizona Department of Environmental Quality on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ka
Attachment

cc: Misael Cabrera, Director
Arizona Department of Environmental Quality

Arizona Department of Environmental Quality—Vehicle Emissions Inspection Program Auditor General Report No. 15-119 Initial Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: Department has reduced some program fees, but can improve its fee-setting process

1.1 To help ensure program fees better reflect program costs, to avoid some customers paying fees to subsidize the services provided to other customers, and to help ensure administrative costs are more equitably distributed among all customers, consistent with fee-setting models outlined in best practices, the Department should take the following steps:

- a. Ensure its operations are as efficient as possible to help ensure program costs are as low as possible;
- b. Develop and implement a method for determining and tracking program costs, and create policies and procedures for using this method;
- c. After developing this cost methodology, determine the appropriate fees to charge for each program service, including ensuring administrative costs are more equitably distributed between motorists, and set program fees accordingly; and
- d. Consider the effect that proposed fee changes may have on affected customers and obtain their input when developing the proposed fees. If proposed fees are significantly higher, the Department might consider increasing fees gradually.

Implementation in process

The Department reported that it is planning efficiency improvement projects, such as redesigning the Program's fleet portion to reduce the number of onsite inspections and implementing online payments for fleet permits.

Implementation in process

The Department has developed a tool to determine and track program costs. Additionally, the Department reported that it developed a procedure for tracking program expenditures, including monthly reviews of past, current, and anticipated future expenditures by the Business Operations team and department management. However, the Department has not yet determined when it will develop and implement its written policies and procedures due to leadership changes.

Not yet applicable

The Department is in the process of developing its methodology for tracking program costs (see explanation for Recommendation 1.1b) and, as a result, has not yet been able to determine the appropriate fees to charge for each program service.

Not yet applicable

See explanation for Recommendation 1.1b.

Recommendation**Status/Additional Explanation****Sunset factor #2: Department has reduced some program fees, but can improve its fee-setting process**

1. The Department should continue with its plans to identify important program contract monitoring activities, and develop and implement a contract monitoring plan that includes these activities and helps to ensure contractor compliance with contractual and federal requirements. The contract monitoring plan should also include corrective action follow-up procedures in the event the contractor has not complied with contractual and/or federal requirements, and sample contract-monitoring documentation.

Implementation in process

The Department has identified important contract monitoring activities, developed a contract monitoring checklist, and identified corrective action steps for addressing any contract noncompliance it may identify, such as assessing a fine for every day that the contractor does not comply with report submission deadlines listed in the contract. Additionally, the Department has developed a contract monitoring procedure document that explains the importance of contract monitoring and provides details on how department staff should perform contract monitoring duties. However, as of July 2016, the contract monitoring procedures and checklist had yet to be fully implemented because the Department had not yet established a contract monitoring team to perform these duties.

2. The Department should develop and implement policies and procedures to further detail and formalize how program staff should implement the contract monitoring plan.

Implementation in process

As previously discussed (see explanation for Sunset Factor 2, Recommendation 1), the Department has developed a contract monitoring procedure document that explains the importance of contract monitoring and provides details on how contract monitoring duties are to be performed. However, as of July 2016, the contract monitoring procedures and checklist had yet to be fully implemented because the Department had not yet established a contract monitoring team to perform these duties.

3. The Department should develop and provide contract monitoring training based on its contract monitoring plan, identified contract monitoring activities, and policies and procedures to help ensure its staff effectively conduct contract oversight and monitoring activities.

Not yet applicable

As of July 2016, the Department had not yet established a contract monitoring team to perform contract monitoring duties (see explanation for Sunset Factor 2, Recommendation 1).

4. The Department should use the results of a planned effectiveness study to identify and implement program changes to improve the Program's effectiveness and efficiency.

Implementation in process

The Department contracted with a vendor for an effectiveness study, and received the preliminary results in December 2015. However, the department reported that it had questions regarding the comprehensiveness of the study methodology. For example, according to the Department, the vendor did not use program-specific data for some of its analyses. As a result, the Department reported that it met with the vendor in May 2016 to discuss the study design. As of July 2016, the Department reported that it was working with the vendor on the methodology prior to finalizing the study results and implementing any program changes.

Recommendation**Status/Additional Explanation****Sunset factor #6: The extent to which the Program has been able to investigate and resolve complaints that are within its jurisdiction.**

5. The Department should develop and implement a formal complaint-handling process that ensures program complaints are appropriately handled, tracked, and documented.

Implemented at 6 months

6. The Department should monitor the program contractor's complaint-handling process to help ensure it adheres to contract requirements.

Implementation in process

The program contractor sends a monthly summary of all complaints it receives to the Department for review. Additionally, as of July 2016, the Department reported that it was working with the program contractor to develop a method to integrate the contractor's complaints database into the Department's program complaints database (see explanation for Sunset Factor 6, Recommendation 7, for more information about the Department's program complaint database). According to the Department, integrating the databases will allow the Department to more easily view and track complaints received by the program contractor.

7. The Department should track the types of program complaints it receives, and it should review the types of complaints it and the program contractor receive to identify potential trends in complaints that may indicate an issue, and take steps to address the identified issue as necessary.

Implementation in process

The Department has developed and implemented a database for tracking program complaints. The Department reported that it generates a report from the database each week that summarizes the type and number of complaints received each week. As previously mentioned (see explanation for Sunset Factor 6, Recommendation 6), as of July 2016, the Department was also in the process of determining how to integrate the program contractor's complaints database into the Department's program complaints database, which it reported will allow the Department to more easily view and track complaints received by the program contractor