

State of Arizona
Office
of the
Auditor General

PERFORMANCE AUDIT

**ARIZONA
DEPARTMENT
OF
BUILDING
AND
FIRE SAFETY**

**Report to the Arizona Legislature
By Debra K. Davenport
Auditor General**

**September 2001
Report No. 01-23**

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

September 20, 2001

Members of the Arizona Legislature

The Honorable Jane Dee Hull, Governor

Mr. N. Eric Borg, Director
Department of Building and Fire Safety

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Department of Building and Fire Safety. This report is in response to a September 18, 2000, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the Sunset review set forth in A.R.S. §41-2951 et seq. I am also transmitting with this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, Department of Building and Fire Safety plans to implement 5 of 7 recommendations directed at it and does not plan to implement 2 recommendations.

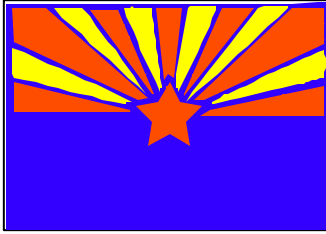
My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on September 21, 2001.

Sincerely,

Debra K. Davenport
Auditor General

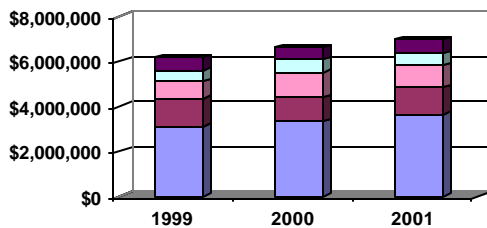
Enclosure



Department of Building and Fire Safety

Services: The Department of Building and Fire Safety operates with three programs: the State Fire Marshal, Manufactured Housing, and Administration. **1) State Fire Marshal**—Enforces the State Fire Code by conducting fire safety inspections of state, county, and university buildings and public, charter, and private school buildings; and provides training and education for fire personnel. **2) Manufactured Housing**—Inspects manufactured homes, factory-built buildings, and recreational vehicles as they are constructed to ensure they adhere to federal- or state-approved design plans; inspects mobile homes installed in the State to ensure they are properly installed. **3) Administration**—Provides administrative services to all programs, licenses manufactured housing manufacturers, dealers, brokers, salespersons, and installers; issues manufactured housing installation permits; assists the Office of Manufactured Housing in investigating consumer complaints.

Revenue: \$ 6.95 million (fiscal year 2001)

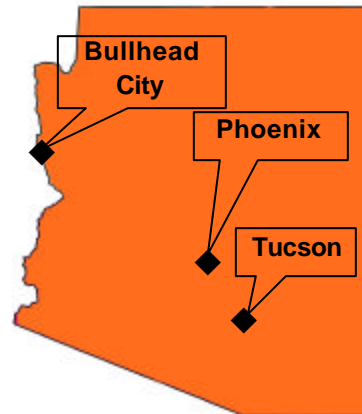


- Other (1)
- Homeowner tax assessments(2)
- Sales and charges for goods and services
- Licenses and fees
- General Fund appropriations

- (1) Includes intergovernmental and interest revenues.
- (2) Assessed on mobile homeowners who rent the land their mobile homes are located on. These taxes are deposited in the Mobile Home Relocation Fund.

Department Office Locations^a:

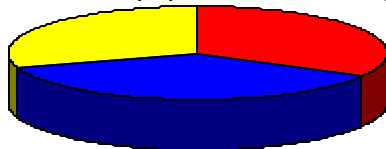
1 State owned; 2 Leased



^a Additional inspection staff for the Manufactured Housing and the State Fire Marshal programs work from their homes in Prescott Valley, Williams, the Village of Oak Creek, and St. Johns.

Personnel: 76.5 full-time staff

Office of the State Fire Marshal (23) Office of Administration (25.5)



Office of Manufactured Housing (28)

The Department also consists of the nine-member Board of Manufactured Housing, and the seven-member State Fire Safety Committee.

Equipment: While the Department mainly uses general office equipment, it also leases 53 state vehicles, consisting of sedans, pickups, half-ton trucks, SUVs, and minivans. These vehicles were leased from the Department of Administration at a cost of more than \$300,000 during fiscal year 2001.

Program Goals (Fiscal Years 2001-2003):**Fire Marshal :**

- To increase life safety and property conservation through fire code enforcement and firefighting training.
- To ensure public safety in the removal of petroleum tanks under DEQ requirements.

Manufactured Housing:

- To ensure safe products for consumers of manufactured/mobile homes, recreational vehicles, and factory-built buildings.

Administration:

- To be responsive and accurate in response to internal and external requests for administrative services.
- To expedite licensing of qualified applicants.
- To rapidly and accurately investigate alleged illegal conduct within the manufactured housing industry.

Adequacy of Goals and Performance Measures:

The Department should consider revising some of its goals and adding some performance measures.

Currently, the Department has established goals that are overly broad and combine separate program activities. For example:

- Only one goal covers all Manufactured Housing program functions, including reviewing and approving manufactured housing plans and inspecting manufactured housing plants and installations.

- Only one goal covers the State Fire Marshal's responsibilities for providing training to Arizona firefighters and conducting fire safety inspections of public buildings.

Developing separate goals for these various functions might create more useful information for oversight bodies and the public.

Further, the Manufactured Housing and State Fire Marshal programs should establish additional outcome, efficiency, and quality performance measures for many of their program functions. For example:

- The Manufactured Housing program should adopt outcome measures that report the results of its housing plan review and plant inspection efforts, efficiency measures that report on the timeliness of these reviews, and quality measures that reflect customer satisfaction with the Department's services.
- The State Fire Marshal program should establish output, outcome, and efficiency measures covering its critical follow-up inspection activities, which ensure that violations of the State Fire Code have been corrected. Additionally, it should establish outcome measures reporting on the results of its fire safety inspections, efficiency measures reporting how efficiently fire safety inspections are conducted, and quality measures for both the firefighter training and fire safety inspection functions.

SUMMARY

The Office of the Auditor General has conducted a follow-up performance audit and Sunset review of the Arizona Department of Building and Fire Safety (Department) pursuant to a September 18, 2000, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the Sunset review set forth in A.R.S. §41-2951 et seq. The Auditor General last reviewed the Department's performance in 1999 (Auditor General Report No. 99-16).

The Department has the following responsibilities:

- Conducting fire safety inspections for state- and county-owned public buildings and public, charter, and private school buildings.
- Inspecting locations where manufactured housing, factory-built buildings, and recreational vehicles are manufactured, sold, or installed; and establishing licensing and regulation procedures for manufacturers, dealers, brokers, and installers.
- Administering the Mobile Home Relocation Fund, which assists owners of mobile homes when they must relocate under certain circumstances.

Fire Safety Inspection Process Improved (See pages 9 through 14)

Since the 1999 Auditor General report, the State Fire Marshal has made many improvements to its policies and procedures for providing fire safety inspections of Arizona public buildings. While fire safety inspections are important to minimize the frequency of fires, the 1999 report found that almost half of all charter school campuses and a majority of buildings owned by the

State, Maricopa County, Pinal County, and the University of Arizona had no recorded fire safety inspections. Additionally, auditors found evidence of follow-up inspections or documentation that violations were corrected for only 20 percent (55 of 272) of inspections in which at least one fire code violation was found.

The Fire Marshal has since increased its inspection coverage, but these efforts have been limited by the time and resources it has dedicated to improve its inspection program. For example, a review of 30 of the 444 building files originally reviewed in the 1999 audit found that the Fire Marshal inspected 19 of these buildings since that time, as compared to 17 at the time of the 1999 audit.

Although the Fire Marshal has not yet reached 100 percent coverage, the Fire Marshal has taken several steps that should improve its ability to conduct regular fire safety inspections. First, the Fire Marshal implemented policies and procedures for maintaining an accurate and complete inventory of buildings requiring inspection. Second, the Fire Marshal assessed the fire safety risk of buildings on this list, assigning each a fire safety inspection priority based on life and property loss potentials. Third, the Fire Marshal developed a system to manage the inspection and re-inspection process, using each building's inspection priority, along with its inspection history, to produce schedules identifying when inspections and re-inspections are due. The Fire Marshal has also developed policies specifying when violations require follow up and has improved its recordkeeping system.

Some Steps Taken To Improve Installation Inspection Program (See pages 15 through 22)

While the Department has addressed some of the recommendations made in the 1999 report, it should still reduce the number of inspections it provides for manufactured housing installations. Since the 1999 report, the Department strengthened licensure requirements for manufactured housing installers by adopting minimum education and experience requirements, and added a continuing education program. Further, the Department has

taken steps to simplify the installation process by drafting new rules that more clearly specify installation standards. However, after initially agreeing with the recommendations to reduce the number of inspections associated with an installation permit from three to one and to revise the permit fee accordingly, the Department changed its position. Citing analysis showing that the Department provides an average of two inspections per installation permit, the Department and the Board of Manufactured Housing, which is part of the Department and responsible for overseeing the regulation of manufactured housing, concluded that a change in the number of inspections per permit is unnecessary.

Despite this position, further research shows the Department could take steps to reduce the number of inspections it must provide. Specifically, auditors' analysis suggests that installers should generally be able to complete their work in a manner that requires only one inspection. Auditors reviewed 27 permits issued by the Department in 2000 and found that 8 required only 1 inspection, and 16 of these permits required 2 or more inspections because of installer errors. As a result, it appears that homeowners and the better-performing installers are subsidizing the costs of additional inspections for some installers who are not performing as well.

To reduce the number of inspections it carries out, the Department should continue with its efforts to track and identify installers who repeat violations. It should take appropriate action against those licensees, and incorporate information on frequently occurring violations in its installer training program. Further, to encourage installers to install homes correctly the first time, the Department should reduce the number of inspections it provides for each permit from three to one.

Department Has Acted to Improve Access to and Awareness of Relocation Fund (See pages 23 through 31)

The Department has acted upon recommendations made in the 1999 Auditor General report to improve access to and increase

awareness of the Mobile Home Relocation Fund. The Fund helps homeowners relocate when they must move due to certain conditions and is funded through assessments on these homeowners and park owner fees. In response to the 1999 report, the Department now allows eligible homeowners to request assistance from the Fund even if their park owners fail to notify the Department of a change in use for a park. The Department also works with industry and homeowner organizations to increase Fund awareness. Finally, the Department revised its procedures to ensure park owners give adequate notice of an intended change of use, and added information about the Fund to park manager training.

Despite increased use of the Fund, Fund revenues continue to exceed expenditures, resulting in an excessive Fund balance. The 1999 report found that few homeowners used the Fund, and as a result, from fiscal years 1995 to 1999, the Fund's revenues were ten times its expenditures. While the Fund paid out record amounts in fiscal years 2000 and 2001, revenues continue to outpace expenditures, resulting in a fund balance that exceeds \$5.8 million as of June 30, 2001. Because it is difficult to project the future use of the Fund, the Department should study the Fund's use over the next three years and, if necessary, meet with the homeowner and park owner associations to determine if changes to the homeowner tax assessment are warranted. A lower tax assessment would ease the tax burden on these homeowners but allow the Fund to continue receiving assessment revenues at a reduced rate.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a follow-up performance audit and Sunset review of the Arizona Department of Building and Fire Safety pursuant to a September 18, 2000, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the Sunset review set forth in A.R.S. §41-2951 et seq. The Auditor General last reviewed the Department's performance in 1999 (Auditor General Report No. 99-16).

Department Responsibilities, Organization, and Staffing

The Department of Building and Fire Safety (Department) was established in 1986 through a merger of the Office of the Fire Marshal and the Office of Manufactured Housing. Statute requires the Department to further the public safety and welfare by maintaining relevant standards and codes for manufactured housing and fire safety. The Department is headed by a Governor-appointed director and employs 76.5 full-time equivalent (FTE) employees. To fulfill its statutory obligations, the Department is organized into three offices:

- **The Office of the State Fire Marshal (23 FTEs)**—The Fire Marshal is charged with conducting a regularly scheduled fire safety inspection program for all state- and county-owned public buildings and all school district, charter, and private school buildings throughout the State, except for private schools in cities with a population of 100,000 or more.¹

Additionally, the Fire Marshal can enter into agreements with local fire departments to conduct these fire safety inspections for the State. Thirty cities or fire districts statewide have elected to enter into these agreements and inspect public buildings within their jurisdictions. In addition to fire

¹ Cities with a population of 100,000 or more can adopt and enforce their own fire codes and conduct fire safety inspections for private schools.

safety inspections, the Fire Marshal also approves plans for building construction, remodeling, alterations, and additions for state, county, and public school buildings; provides training for firefighters; assists local fire departments with arson investigations; and enforces compliance with the state fire code, except in nine cities with populations of 100,000 or more that have adopted their own fire codes.¹

- **The Office of Manufactured Housing (28 FTEs)**—The Office of Manufactured Housing regulates the manufactured housing industry in the State. It inspects each manufactured home, and randomly inspects factory-built buildings and recreational vehicles constructed in manufacturing plants in Arizona to ensure their construction adheres to federal- or state-approved design plans. The Office also requires that every manufactured or mobile home installed in the State be inspected to ensure utilities are properly connected and the home is securely set on its lot. These installation inspections are conducted by either the Office or one of 68 cities and counties that have agreements to conduct inspections within their jurisdictions. Additionally, the Department carries out an agreement with the federal government to enforce the Federal Manufactured Home Construction and Safety Standards for the construction of new manufactured homes and to investigate and resolve consumer complaints concerning these homes.

- **The Office of Administration (25.5 FTEs)**—The Office of Administration provides the administrative services necessary to operate the Office of Manufactured Housing and the Office of the State Fire Marshal. In addition, the Office administers the Mobile Home Relocation Fund. This fund assists homeowners when they must relocate from their mobile home park under certain circumstances, or helps low-income homeowners bring older homes into compliance with the current manufactured housing codes.

¹ The nine cities are Chandler, Gilbert, Glendale, Mesa, Peoria, Phoenix, Scottsdale, Tempe, and Tucson.

Board of Manufactured Housing and State Fire Safety Committee

The Board of Manufactured Housing and the State Fire Safety Committee, which are established within the Department, also have a number of duties concerning building and fire safety codes. Specifically,

- **The Board of Manufactured Housing**—This Board consists of nine members representing the industry and the public, who are appointed by the Governor for three-year terms. The Board adopts rules for the construction and installation of manufactured housing and factory-built buildings, and establishes licensing requirements for manufacturers, dealers, brokers, and installers of these buildings.
- **The State Fire Safety Committee**—This Committee is composed of seven members representing municipal fire chiefs, architects, and chief building officials from cities, towns and counties, and the general public. Reactivated in March 2001, the Committee adopts rules governing the state fire code and administration of the Arson Detection Reward Fund established under A.R.S. §41-2167. The Fund is funded by legislative appropriations, donations, and monies from fines and bail forfeiture collected from arson-related offenses. People providing information about acts of arson may receive a reward of up to \$10,000 from this Fund. As of May 31, 2001, the Fund's balance was \$19,749.

Department Budget

As illustrated in Table 1 (see page 4), the Department generated over \$2.4 million in revenues for fiscal year 2001 from manufactured housing industry licensing fees, and charges for services, fines, and intergovernmental agreements.

Table 1

**Arizona Department of Building and Fire Safety
Statement of Revenues, Expenditures, and Changes in Fund Balance
Years Ended June 30, 1999, 2000, and 2001
(Unaudited)**

	1999	2000	2001
Revenues:			
State General Fund appropriations	\$3,115,200	\$3,337,400	\$3,633,500
Licenses and fees	1,228,960	1,088,490	1,232,293
Sales and charges for goods and services	742,838	1,082,571	949,277
Homeowner tax assessments ¹	527,274	568,937	550,267
Intergovernmental	320,138	256,443	225,089
Interest on investments	240,663	259,654	337,915
Fines and forfeits	22,741	20,992	18,203
Other ²	6,901	20,308	4,179
Total revenues	6,204,715	6,634,795	6,950,723
Expenditures:			
Personal services	1,880,517	1,994,055	2,100,148
Employee-related	488,213	485,691	524,279
Professional and outside services	237,225	233,813	227,963
Travel, in-state	208,574	222,843	407,596
Travel, out-of-state	3,121	3,780	
Aid to individuals and organizations ³	43,234	549,392	422,819
Other operating	642,627	546,867	744,516
Capital outlay	28,304	136,110	27,150
Total expenditures	3,531,815	4,172,551	4,454,471
Excess of revenues over expenditures	2,672,900	2,462,244	2,496,252
Other financing uses:			
Reversions to the State General Fund	94,788	63,694	200,315
Remittances to the State General Fund	<u>2,011,850</u>	<u>2,150,322</u>	<u>1,794,682</u>
Total other financing uses	<u>2,106,638</u>	<u>2,214,016</u>	<u>1,994,997</u>
Excess of revenues under expenditures and other financing uses	566,262	248,228	501,255
Fund balance, beginning of year	5,081,532	5,647,794	5,896,022
Fund balance, end of year ⁴	\$5,647,794	\$5,896,022	\$6,397,277

¹ Assessed on mobile homeowners who rent the land their mobile homes are located on. These taxes are deposited in the Mobile Home Relocation Fund.

² Consists primarily of collections from park owners for statutory assessments on each relocation.

³ Consists of relocation payments to mobile home owners.

⁴ Includes \$5,171,944, \$5,418,492, and \$5,807,584 in the Mobile Home Relocation Fund for 1999, 2000, and 2001, respectively.

Source: Auditor General staff analysis of the Arizona Financial information System *Accounting Event Extract File*; and the *Revenues and Expenditures by Fund, Program, Organization, and Object, Trial Balance by Fund, and Status of Expenditures and Appropriations* reports for the years ended June 30, 1999, 2000, and 2001.

The Department is required to remit revenues equal to 95 to 105 percent of the manufactured housing program's operating costs and remitted approximately \$1.8 million of these revenues to the State General Fund in fiscal year 2001. The Department also received over \$3.6 million in General Fund appropriations to finance its operations in fiscal year 2001.

Additionally, the Department manages the Mobile Home Relocation Fund. Revenues to the Fund accrue from a tax on owners of mobile homes who rent or lease land for their homes, and fees levied upon owners of mobile home parks. When the Fund reaches an \$8 million "cap," the homeowner tax assessment is waived until the Fund's balance drops below \$6 million. In fiscal year 2001, the homeowner tax generated approximately \$550,000 in revenues, while interest on the Fund's balance amounted to approximately \$300,000. Fund expenditures, including administrative costs, amounted to approximately \$459,000. As of June 30, 2001, the Fund's balance exceeds \$5.8 million. (For more on the Fund, see Finding III on pages 23 through 31.)

Audit Scope and Methodology

This audit focused on the Department's progress in addressing concerns identified in the Auditor General's 1999 performance audit (Report No. 99-16). This performance audit and Sunset review includes findings and recommendations in three areas:

- The Department has significantly improved its ability to conduct fire safety inspections by identifying and prioritizing all buildings within its jurisdiction requiring fire safety inspections, developing formal inspection policies, and improving its oversight of the inspection process.
- The Department has made some improvements to strengthen licensing requirements and reduce the number of inspections required to approve manufactured home installations. However, the Department still needs to take action to address frequently occurring violations and reduce the number of inspections associated with each permit.

- The Department has taken several steps to improve awareness of and access to the Mobile Home Relocation Fund and park owners' compliance with requirements. However, because the Fund continues to grow and its future use is difficult to project, the Department should study the Fund's use over the next three years and, if necessary, meet with the homeowner and park owner associations to determine if changes to the homeowner tax assessment are warranted.

Auditors used a variety of methods to assess Department efforts to implement the 1999 report's recommendations, including interviewing Department management and staff and reviewing Department policies and procedures. The following methods were also used:

- To assess improvements in the Fire Marshal's fire safety inspection processes, auditors reviewed inspection files for a random sample of 24 high-priority buildings (i.e., school district and charter school buildings) and a random sample of 30 buildings from the Auditor General's previous audit sample of 444 buildings; compiled an inventory of charter schools from the Arizona Department of Education's June 2001 listing and compared 50 of these schools to the Department's building inventory database; and reviewed the completed fire risk assessments for a separate random sample of 29 buildings.
- To assess manufactured housing installation inspection efficiency and effectiveness, auditors analyzed a random sample of 51 manufactured housing installation permits issued in 2000; met with the Board of Manufactured Housing and interviewed the Board chairman to determine their perspectives on the Department's manufactured housing installation inspection processes; interviewed officials with the Arizona Registrar of Contractors, three Arizona cities, and five states; and reviewed the minutes for 15 Board meetings held between July 1999 and January 2001.¹
- To assess Department efforts related to the Mobile Home Relocation Fund, auditors reviewed Department logs of the

¹ California, Colorado, Nevada, New Mexico, and Utah were contacted because of their geographic proximity to Arizona.

Introduction and Background

Fund's use since July 1999 for change in park use, rent increase, mobile home rehabilitation, and abandonment assistance; reviewed Fund financial records for fiscal years 1995 through 2001; interviewed officials with the Arizona Association of Manufactured Home Owners and the Manufactured Housing Communities of Arizona; and reviewed the files for ten homeowners who applied for change-in-park-use assistance during fiscal years 2000 and 2001.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the director and staff of the Department of Building and Fire Safety and the chairman and members of the Board of Manufactured Housing for their cooperation and assistance throughout this audit.

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FINDING I

FIRE SAFETY INSPECTION PROCESS IMPROVED

The Office of the State Fire Marshal (Fire Marshal) has made many improvements to its policies and procedures for providing fire safety inspections of Arizona's public buildings. The Auditor General's 1999 report identified serious deficiencies with the Fire Marshal's process for inspecting buildings. Although the Fire Marshal has inspected some additional buildings, its biggest improvements to date have been in its fire safety policies and practices, which should improve the regularity of future fire safety inspections.

Fire Safety Inspections Reduce Fire Risk

Regular fire safety inspections are important to minimize the frequency of fires. Consistently scheduled fire safety inspections help identify and correct fire hazards, and educate building management about fire safety and prevention. According to the National Fire Protection Association, cities that do not annually inspect public buildings have fire rates as much as 50 percent higher than cities that inspect public buildings annually.

Despite the importance of these inspections, a 1999 Auditor General report (see Report No. 99-16) noted that the Fire Marshal provided inadequate fire inspection coverage to many Arizona public buildings. Statute requires the Fire Marshal to establish a regularly scheduled fire safety inspection program for all state- and county-owned buildings, and all public and private school buildings, except for private school buildings in cities with a population of 100,000 or more. However, based on a stratified random sample of 444 public buildings reviewed during the 1999 audit, almost half of all charter school campuses, and a majority of buildings owned by the State, Maricopa and Pinal Counties, and the University of Arizona, had no recorded fire safety

A 1999 Auditor General report noted inadequate fire safety inspection coverage.

inspection. Additionally, auditors found evidence of follow-up inspections or documentation that the violations were corrected for only 20 percent (55 of 272) of inspections that had at least one fire code violation. The 1999 audit noted three main problems that affected the Fire Marshal's ability to conduct regular inspections: an incomplete inventory of buildings, ill-defined inspection policies, and incomplete inspection records.

Fire Marshal Has Realized Some Improvement to Inspection Coverage

The Fire Marshal has made some improvements to its inspection coverage. To review the Fire Marshal's inspection activity since 1999, auditors examined 54 Fire Marshal inspection files. First, auditors reviewed a random sample of 30 of the 444 files originally sampled in the 1999 report. At that time, 17 of the 30 buildings had a recorded fire safety inspection. Since then, the Fire Marshal has inspected or re-inspected 19 of these buildings, including 6 buildings that did not have a recorded fire safety inspection on file in 1999. One of the buildings with no fire safety inspection on file is no longer under the Department's jurisdiction. The other buildings with no record of having received a fire safety inspection are mostly buildings with low inspection priorities, such as a mobile classroom and a garage owned by the Department of Administration.

Additionally, auditors reviewed the Fire Marshal's inspection activity for buildings it has designated as high priority. Buildings designated as high priority include public school district and charter school campuses. Based on a review of a random sample of 24 public school district and charter school campuses within the Fire Marshal's jurisdiction, nearly all of these schools have a fire safety inspection on record. Specifically, 96 percent, or 23, of these school campuses have received a fire safety inspection.

Auditors also reviewed the Fire Marshal's efforts to follow up on violations identified during fire safety inspections, but found only a slight increase in the number of buildings for which the Fire Marshal conducted re-inspections or obtained documentation that the violations were corrected. Follow up on identified

violations is an important step in ensuring that fire safety problems are corrected and buildings are kept free from fire code violations. However, while 40 of the 54 files reviewed by auditors had one or more violations that required inspector follow up, only 48 percent (19 of 40 instances) contained evidence that the violations were corrected, or that inspectors followed up on the deficiencies. Comparatively, in 1999, only 20 percent (55 of 272 instances) that required follow up showed evidence that violations had been corrected.

The Fire Marshal has not realized more significant improvements to its inspection coverage, in part because of the time and resources it has devoted to implementing needed changes to its fire safety inspection policies and procedures. According to a Department official, the Fire Marshal's ability to conduct regular inspections was reduced because an estimated 50 percent of inspectors' time was temporarily dedicated to making needed changes to its inspection processes, rather than conducting building fire safety inspections.

Program Improvements Should Enhance Fire Safety Coverage

Significant changes to the Fire Marshal's inspection policies and practices should improve its ability to conduct regular fire safety inspections. However, the Fire Marshal should take some further actions to improve its fire safety inspection program. Specifically:

- **Developed an accurate building inventory**—Since the 1999 report, the Fire Marshal has developed an inventory of buildings from lists provided by counties and state agencies, such as the Department of Administration, the Department of Transportation, and the Department of Education. Currently, the Fire Marshal's complete inventory consists of over 19,000 buildings. To ensure that it maintains a complete and accurate building inventory, the Fire Marshal has implemented written procedures to annually update the inventory. Further, because charter schools open and close more frequently than other buildings, the Fire Marshal indicates that it has an

The current Fire Marshal inventory contains over 19,000 buildings.

informal policy to update its list of charter schools each quarter.

To assess the completeness and accuracy of the Fire Marshal's inventory, auditors compared 50 charter schools from the Department of Education (DOE) June 2001 listing to the Fire Marshal's inventory. This review revealed that all 50 charter school campuses were listed in the Fire Marshal's inventory. However, given the frequency of changes to the charter school population in the State, including schools that open or close, change names, or relocate, and the need for the Fire Marshal to constantly update its inventory to reflect these changes, the Fire Marshal should formally adopt policies for updating its charter school inventory on a quarterly basis.

The Fire Marshal has completed building fire risk assessments and assigned inspection priorities.

- **Assessed each building's fire risk**—The Fire Marshal assessed each building's fire risk and assigned a priority, but should develop policies and procedures governing how frequently buildings should be inspected and how the priority is documented. Specifically, the Fire Marshal implemented a process that prioritizes buildings using a "Fire Risk Assessment" model that combines life loss and property loss potentials and targets inspections to those buildings that pose the highest safety threat. Factors weighed in these assessments include building occupancy, number of stories, and potential for property loss. Fire Marshal inspectors assess each building according to these factors, and the Fire Marshal assigns a final inspection priority score for each facility based on this assessment. Auditor review of a random sample of 29 building files found a completed risk assessment for each building.

To further enhance these efforts, the Fire Marshal needs to develop inspection time frames for its inspection priority scores. Specifically, while the Department has assigned a priority score of 1-5 for each building, with a "1" representing the highest priority, the Department has not developed policies specifying how frequently these buildings should be inspected. For example, the Fire Marshal has not determined whether priority 1 buildings should be inspected annually or semi-annually, or how often lower-priority buildings should be reviewed. Department officials indicate that they wish to

assess the impact of the inspection process on its workload before assigning time frames to inspection priorities.

Finally, supervisors, inspectors, and data entry staff sometimes change a building's inspection priority without documenting the factors influencing their decisions. Specifically, a review of 29 building assessment forms revealed 15 instances when a supervisor, inspector, or data entry staff changed the final inspection score, usually by assigning the building a higher inspection priority. While upgrading inspection priorities is not necessarily a problem, and policy allows supervisors and inspectors to change scores, the Fire Marshal should modify its policies to require them to document their reasons for changing an inspection priority score to ensure consistency in future assessments. Further, the Fire Marshal should ensure that data entry staff do not change inspection priority scores.

The Fire Marshal now uses an automated system to identify buildings due for inspection.

- **Developed system to manage inspection and re-inspection process**—The Fire Marshal completed development of a database containing inspection priority information and began implementing an automated inspection and re-inspection system. Since the 1999 audit, the Fire Marshal has entered each building's inspection priority and last inspection date into a database that it developed to schedule inspections and re-inspections. The Fire Marshal plans to continually update this database with current information. In May 2001, the Fire Marshal began using this system to produce reports identifying when inspections and re-inspections are due. Each month, the database generates a list of 20 high-priority buildings that require fire safety inspections and buildings requiring follow-up inspections for each Fire Marshal inspector.

- **Developed follow-up inspection policies**—The Fire Marshal has developed policies and procedures for follow-up inspections. The new policies allow Fire Marshal inspectors to determine when violations are severe enough to require a re-inspection, or when other follow-up efforts, such as documentary or verbal confirmation, are sufficient. The policy also specifies how long the inspector should wait to confirm that the violations were corrected. For example, fire protection

equipment repairs should be corrected within ten days and imminent dangers, such as inoperable exit doors and flammable leaks, should be corrected immediately.

Building inspection files are now better maintained and organized.

- **Maintained Fire Marshal inspection files**—The Fire Marshal has improved its recordkeeping system. First, it has assigned a full-time position to perform data entry and limits access to its inspection files. Additionally, the Fire Marshal plans to adopt policies and procedures that require all inspectors to forward fire-safety inspections, re-inspections, correction documentation, and any verbal confirmation to the central office located in Phoenix, which maintains the inspection files. A review of 90 randomly selected state, county, university, and public and charter schools found that records on each facility were maintained in separate files, and that the files were maintained and organized efficiently.

Recommendations

1. The Department should formalize its procedures for updating its charter school inventory on a quarterly basis.
2. The Department should:
 - a. Develop policies that specify inspection time frames for its inspection priorities once it has assessed the impact of its inspection process on its workload;
 - b. Require documentation when supervisors and inspectors change inspection priority scores; and
 - c. Ensure that data entry staff do not change inspection priority scores.

FINDING II

SOME STEPS TAKEN TO IMPROVE INSTALLATION INSPECTION PROGRAM

While the Department has addressed some of the recommendations made in the Auditor General's 1999 report, it should take steps to reduce the number of manufactured housing installation inspections it provides. The Auditor General's 1999 report made several recommendations to address inadequate home installations and reduce the number of inspections the Department conducted to approve installations. In response, the Department implemented some of the recommendations to improve installer experience and qualifications. The Department also initially agreed to implement recommendations to reduce the number of inspections it provides, but later disagreed with and did not implement these recommendations.

Department Ensures Homes Installed Properly

Both the Department and its Board of Manufactured Housing have the responsibility to ensure that manufactured homes are appropriately installed. According to statute, the Board is responsible for adopting rules specifying licensure requirements for installers and installation requirements for manufactured homes. The Department is responsible for licensing installers based on the requirements established by the Board and conducting inspections of home installations. As explained in Item 1 (see page 16), before a homeowner can occupy his or her home, Department inspectors must verify the home is properly set and that electric, gas, water, and sewer systems have been properly connected.

**Item 1 The Manufactured Home
 Installation Process**

A homeowner wishing to install a manufactured home:

- Obtains a \$90 installation permit from the Department, which authorizes the installation and entitles the home to up to three installation inspections over a period of six months. If additional inspections are required, an additional \$30 inspection fee is typically charged.
- After the home has been installed, the homeowner or the installer contacts the Department, which sends an inspector to ensure that the installation conforms with state standards and the manufacturer's instructions.
- If the inspector finds a violation, he or she will note the deficiency and conduct re-inspections until the home meets all installation standards. The homeowner cannot occupy the home until the home is properly set on the ground and the inspector has approved the electric, gas, water, and sewer system connections.

**Some Improvements
Made To Improve Installer
Performance**

The Auditor General's 1999 report (No. 99-16) found that licensees failed to consistently follow installation codes and suggested a number of improvements to strengthen licensing requirements and reduce the number of inspections required to approve manufactured home installations. In response, the Department took steps to address some of these concerns, while others were not addressed. Specifically, the Department:

- **Strengthened licensure requirements**—The Department addressed the performance of licensed installers by adopting minimum education and experience requirements and adopting voluntary continuing education requirements. The previous audit determined that the Department did not require any combination of experience or training for someone to become a licensed installer. Rather, the prospective licensee paid a fee, posted a bond, submitted an application, and

The Department adopted recommendations to improve licensing requirements.

passed a licensing test. Further, the Department did not require licensees to have any continuing education to remain licensed.

In response to the report, the Department agreed to adopt minimum licensing standards, including minimum education and experience requirements, and implement mandatory continuing education for licensees. In February 2000, the Department's Board of Manufactured Housing approved a three-year experience requirement for installers, allowing technical training or classes to replace up to one of the three years. The Department indicates that an administrative rule adding these licensure requirements will be included in its next set of proposed rules, although the Department has not determined when it will begin the rule-making process. Further, rather than requiring mandatory continuing education, the Department implemented a voluntary four-to-eight-hour continuing education program, starting in June 2000. While there are approximately 200 licensed installers, as of November 2000, 235 individuals, consisting of licensees and their employees, had attended.

The Department has simplified installation requirements and developed an installation guidebook for homeowners.

- **Simplified the installation process**—The Department has taken steps to simplify the installation process. The Auditor General noted that minimal licensing requirements were compounded by the existence of multiple installation standards. As a result, installations had become more complex, making it more difficult to correctly connect utilities and set the home.

Shortly after the 1999 audit, the Department adopted new rules simplifying installation requirements. These rules now present the installation requirements in clearer language, provide more detail to installers, and are organized more effectively. Further, the Department developed a guidebook that provides homeowners who install their own homes instructions on how to safely set their homes. Finally, the federal government passed the American Homeownership and Economic Opportunity Act of 2000. The Act requires a committee to develop model manufactured home installation standards that take into account current manufactured home designs and installation instructions. The model standards

are required to be in place in 2005, but until that time, no state or manufacturer may adopt standards deemed less restrictive than those currently in place. The Department reports that its current requirements in rule are likely to exceed any standard adopted by the federal government.

In contrast, the Department did not implement other Auditor General recommendations to reduce the number of inspections required to approve a home installation. Specifically, the Department and the Board:

- **Decided not to require supervisory review**—The Department did not take action to ensure that licensed installers supervise each home installation. Specifically, A.R.S. §41-2194 requires that anyone engaged in the business of installing manufactured or mobile homes be licensed as an installer by the Department. However, licensed installers hire unlicensed employees to install homes, and homes can be installed by these workers without the licensee ever visiting or supervising the installation.

While the Department initially agreed to take steps ensuring that licensed installers supervise each home installation, it did not implement this recommendation. The Board of Manufactured Housing's chairman noted that requiring an installer to visit every installation would force installers to operate in a limited area, unfairly restricting their trade. Further, licensees are responsible for the actions of their employees, regardless of whether a licensee supervises an installation or not. As a result, the Department indicated that it had found this recommendation was unfeasible. Additionally, the Registrar of Contractors, which regulates licensees who construct other types of homes, does not require the license holder to be present at the site. A Registrar of Contractors official noted that some licensees could be responsible for a large number of locations, and it would be impossible for a licensee to be present at all of them.

- **Failed to revise permit fees and inspection process**—The Department did not reduce the number of inspections associated with each permit. The Auditor General proposed that once the Department introduced improvements to the licens-

The Department did not adopt recommendations to reduce the number of inspections per permit and revise its permit fees.

ing and inspection standards, it should reduce the number of inspections associated with the \$90 inspection permit from three to one, and the cost of the permit fees accordingly. This step would not only create an incentive for installers to correctly complete a job by the first inspection, but also increase the Department's efficiency by reducing nonproductive travel time and allow homeowners to occupy their homes earlier. While the Department initially agreed to implement this recommendation, the Board of Manufactured Housing elected to continue providing up to three inspections per \$90 permit, citing analysis that the Department conducts an average of two inspections to approve installations. The Board's chairman indicated that the Board determined this inspection rate to be acceptable and maintained the current policy of providing up to three inspections per permit.

Further Actions Needed To Reduce Inspections

While the Department has made some improvements, it should still take additional steps to reduce the number of inspections conducted to approve an installation. Specifically, many homes require more than one inspection because installers fail to follow installation standards. To reduce these additional inspections, the Department should continue its efforts to identify installers or violations that consistently require additional inspections to approve an installation. Finally, to encourage installers to correctly install a home the first time, the Department should reduce the number of inspections associated with each permit.

Installations can be completed and approved with only one inspection.

Installer violations result in multiple inspections—While manufactured homes can be properly installed and approved with the initial inspection, many homes require multiple inspections because licensed installers fail to properly install the home. Specifically, a review of 27 inspection permits issued during 2000 found that 8 required only one inspection to approve an installation, although the current permit allows for up to 3 inspections. However, homeowners and the installers who complete installations with just one inspection are paying the same permit fee and subsidizing the costs of installers who require more inspections. The

same review of 27 inspections found 13 installations that required 2 inspections to approve the installation and 3 installations that required 3 or more inspections due to violations of installation standards. The following examples illustrate added inspections that result from installer errors:

- In March 2000, the Department cleared the water, sewer, gas, and electrical connections, and the home's installation on a property, but could not approve the inspection because the installer failed to affix an insignia indicating that the building complied with construction and installation requirements, as required by law. Four months later, the inspector returned to inspect additions to the home, but found the insignia still missing. In September 2000, the inspector returned for a third time and found the installer's insignia was still not in place, and recommended that the Department take administrative action against the installer.

- In a separate installation, after a foundation for a retaining wall was laid, a home failed inspection because backfill prevented the inspector from examining the water, sewer, and electrical connections, and because footings were too far from the home's supports. The inspector returned the next day, and while he approved the sewer and electrical connections and footings, he found the installer had not completed the water connections and there were no approved plans for a retaining wall on site. Because these issues were not resolved, the inspector was forced to return three days later for a third inspection.

Identify problem licensees and repeat violations—To reduce the number of inspections it provides, the Department should develop a regular process to identify licensees or types of violations more likely to require multiple inspections. The Department recently completed a study to identify patterns in installation violations. Specifically, in July 2001, the Department analyzed 100 installation permits and the associated inspection records to determine if some installers repeat the same violations or consistently require multiple inspections, or identify if some violations appear more frequently. The Department's report identified instances where licensees repeat the same violations or where some violations appear more frequently. For example, the De-

partment identified one licensee who installed 11 homes and required a total of 24 inspections to clear the homes. However, in seven of these installations, inspectors had to return because of violations involving the gas connections. The review also found the most common violations involved necessary installation processes, including gas or electrical connections, and setting the home properly on its lot. Therefore, to consistently identify patterns in installation violations, the Department should develop a process that identifies licensees who repeat violations and violations that occur more frequently.

The Department should address installation problems that it identifies.

In addition to these efforts, the Department should develop steps to address any installer or violation patterns that its efforts identify. Currently, the Department has the authority to take administrative action against licensees, such as issuing letters of concern, administrative fines, and suspending or revoking a license. If the Department finds that certain licensees continually require multiple inspections because they violate installation standards and codes, the Department should take appropriate action against these licensees. Further, if the Department finds that some violations appear frequently across many licenses, it should incorporate these findings into its training program. In fact, at the July 2001 Board of Manufactured Housing meeting, the Department reported it would incorporate its study findings into the training it offers licensees.

The Department should reduce the number of inspections associated with each permit and revise its permit fees.

The Department should reduce the number of inspections inherent in each permit—To give installers an incentive to do the job correctly with a minimal number of inspections, the Department should reconsider its stance and reduce the number of inspections inherent with each permit from three to one. Reducing the inspections currently associated with each permit from three to one will allow homeowners to purchase one inspection when only one is needed, and provide incentive to installers to correctly install homes the first time. Homeowners or installers who would need additional inspections, either due to the type of home installed or the need for re-inspections, would not be precluded from purchasing additional permits.

Including one inspection per permit is a system used by some of Arizona's neighboring states. Colorado's Division of Housing is in the process of implementing an inspection program for install-

ing manufactured housing in September 2001 and plans to offer a similar one-inspection-per-permit system. California and Nevada's state installation inspection programs also charge for an initial installation inspection, adding a separate fee for each re-inspection required to approve a home.

In addition to reducing the number of inspections provided by each permit, the Department should also calculate an appropriate permit fee that reflects the costs of conducting an inspection. The current \$90 fee was selected arbitrarily and was not based on an analysis of the Department's actual inspection costs. However, the Department recently began recording the amount of time it takes to travel to and conduct an inspection, giving the Department the basic information needed to calculate inspections costs. The Department should review this information and calculate an appropriate inspection fee that reflects inspection costs, as well as any associated administrative costs.

Recommendations

1. The Department should develop a process to track and identify installers who repeat violations and take appropriate action against these licensees.
2. The Department should incorporate information on frequently occurring violations and how to prevent these violations in its voluntary training program.
3. The Department should reduce the number of inspections it provides for each permit from three to one.
4. The Department should determine the costs of providing an inspection and revise its current fee, if necessary.

FINDING III

DEPARTMENT HAS ACTED TO IMPROVE ACCESS TO AND AWARENESS OF RELOCATION FUND

The Department has acted upon recommendations made in the 1999 Auditor General Report to facilitate access to and increase awareness of the Mobile Home Relocation Fund. The Fund, which consists of homeowner tax assessments and park owner fees, assists homeowners when they must relocate from their mobile home park under certain circumstances. In response to the report, the Department has taken several steps to improve access to and awareness of the Fund. However, despite record use of the Fund, its balance continues to grow. Therefore, the Department should study the Fund's use over the next three years and, if necessary, meet with the homeowner and park owner associations to discuss any needed changes to the homeowner tax assessment.

Mobile Home Relocation Fund

The Mobile Home Relocation Fund comprises tax assessments and park owner fees and is used to assist owners of mobile homes who must relocate their homes under certain circumstances. Currently, homeowners may access the Fund for any of four reasons:

- **Change of Land Use Relocation**—The Fund offers any homeowner who lives in a mobile home park up to \$5,000 for relocating a single-wide mobile home or \$10,000 for relocating a multi-wide mobile home to another location if the park owner changes the use of the land where the homeowner resides.

Mobile Home Relocation Fund assists mobile home owners who must relocate their homes for certain reasons.

- **Refurbishment**—The Fund provides up to \$1,000 to owners of mobile homes who live at or below the poverty line to bring their homes into compliance with the current manufactured housing code when the home is moved.
- **Rent Relocation**—The Fund provides \$5,000 for single-wide and \$10,000 for larger mobile homes to support the relocation costs of homeowners forced to move because their park owner raised their rent by more than 10 percent plus the increase in the Consumer Price Index for certain cities in the western United States.
- **Park Redevelopment/Home Abandonment**—Starting in 2000, homeowners can collect up to \$5,000 to relocate a single-wide or \$10,000 to relocate a multi-wide mobile home if they have to move while their park space is redeveloped or upgraded. Homeowners have the option of abandoning their homes and receiving \$1,250 for a single-wide or \$2,500 for a multi-wide mobile home.

Owners of mobile homes who rent land for their homes pay \$.50 for every \$100 taxable assessed value of their mobile home into the Fund annually. This would equate to \$9.75 annually for a 1990 mobile home worth \$25,000.¹ Further, park owners who change the use of their land or redevelop their park and force homeowners to relocate, pay into the Fund \$500 for each single-wide and \$800 for each larger mobile home relocated using the Fund. Additionally, when the Fund reaches an \$8 million “cap,” the homeowner tax assessment is waived until the Fund’s balance drops below \$6 million.

¹ A mobile home’s full cash value is based on its age and calculated using depreciation schedules. The full cash value for a 1990 mobile home with a list price of \$25,000 is \$19,500, as determined by Arizona Department of Revenue Valuation Tables. To determine the assessed value, the home’s full cash value is multiplied by 10 percent ($\$19,500 \times 0.1 = \$1,950$). The Fund’s assessment is \$.50 for every \$100 of the assessed value, or $\$1,950 / 100 \times 0.5 = \9.75 .

Efforts Made to Improve Access to and Awareness of the Fund and its Requirements

In response to the 1999 Auditor General's report, the Department has taken several steps to improve access to and awareness of the Fund. While the Legislature has not amended statute to facilitate access, the Department has revised its procedure to improve homeowner access to the Fund. Additionally, the Department has taken steps to increase homeowner awareness of the Fund. Finally, the Department has also revised its procedure concerning landlords who fail to provide adequate notification and has sought to educate park managers concerning their responsibilities under the Fund.

Improved access to Fund—While the Legislature has not amended statute to facilitate access to the Fund, the Department has revised its procedures to improve this access. The 1999 report found that homeowners were restricted by statutes that required them to submit an application 15 days before they moved, and Department practices that denied access to the Fund if the park owner failed to notify the Department of the land's change in use. As a result, the report recommended that the Legislature consider amending statute to allow tenants to apply for Fund assistance up to 60 days after relocating, and the Department to allow homeowners to receive assistance even if the park owner did not notify the Department. Since that time:

- **No Legislation Proposed**—Legislation has not been proposed to allow tenants access to the Fund up to 60 days after relocation and the Department reports that it has not received requests for Fund assistance after the 15-day deadline. Even though the Department has not received any requests after the 15-day deadline, the possibility still exists that all eligible homeowners may not have reasonable access to the Fund if they are not aware it is available before relocating. Therefore, the Legislature should still consider modifying A.R.S. §33-1476.01(H) to allow tenants to apply for the Fund up to 60 days after they have relocated.

Finding III

Department has improved homeowner access to the Fund.

The Department helped educate homeowners about the Fund.

Allowed homeowner access without park notification—The Department now allows eligible homeowners to request assistance from the Fund even if their park owners fail to notify the Department. In response to the report, the Department revised its procedures and now allows tenants access to the Fund without park owner notification. Currently, the Department reports that there have not been any instances where park owners failed to notify the Department of the change in use as required by statute. In addition, Auditor General staff reviewed the files for ten homeowners who applied for change-in-use assistance and found that in each case the landlord notified the Department.

Increased homeowner awareness of Fund—The Department has taken steps to increase homeowner awareness of the Fund. Specifically, the Department has:

- **Continued to educate homeowners**—The Department has continued its efforts to educate homeowners about the Fund as recommended in the 1999 report. The Department presented information on the Fund at the Arizona Association of Manufactured Home Owners' 2000 and 2001 conferences and met with tenants about the Fund after two neighboring mobile home parks announced their pending closures. Additionally, the Department provided a grant to the association to support conferences and workshops that include information on the Fund.
- **Pursued agreements with county assessors**—In December 1999, the Department sent letters to the State's 15 county assessors proposing the inclusion of Fund information, as well as the Department's role and contact information, on tax bills, as recommended in the 1999 report. However, auditor interviews with officials from three county assessor's offices indicated that including this information in tax bills may not be useful because this information may not reach all eligible homeowners, while the cost and logistics of this recommendation would make implementation difficult.

Revised notification procedure and educated park management about Fund—The Department has also revised its procedure concerning landlords who fail to provide adequate notification, and sought to educate park managers concerning their responsibilities under the Fund. Specifically, the Department has:

The Department took steps to help park owners and managers fulfill their Fund requirements.

- **Revised procedures to enforce park owner notification**—The Department revised its procedures to enforce statutory provisions concerning park owner notification of an intended change in park use as recommended in the 1999 report. Specifically, statute requires landlords to notify tenants of the planned change in park use at least 180 days before the tenants must move, and to pay additional money into the Fund if they fail to provide at least 180 days' notice. However, as reported in the 1999 audit, out of a sample of 14 homeowners who used the Fund between 1996 and 1999, 4 reported that they received less than the statutorily mandated 180-day change-in-use notice. The Department took no action against these park owners. While the Department now has a procedure in place to track compliance with the 180-day notice requirement and notifies tenants of their rights pertaining to the Fund, the Department reports that it has not received any complaints from owners that they were not given their 180-day notice. An auditor review of the files for ten homeowners who applied for assistance found no evidence of insufficient notification.

- **Incorporated Fund information into statutorily required training**—The Department has incorporated information about the Fund into the training required for mobile home park managers. In 1999, the Legislature established education requirements for park managers addressing issues concerning the operation of a mobile home park. These requirements went into effect on January 1, 2000. Since the training is provided by the Manufactured Housing Communities of Arizona (MHCA), the Department contacted the organization to offer its assistance in implementing the education requirements and to convey its desire to ensure that the training include information about the Fund.¹ The MHCA currently covers the Fund in this training.

- **Worked with the industry to educate park owners**—The Department has also worked with the MHCA to provide its members with information about the Fund and park owner responsibilities. The Department participated in the MHCA's annual three-day conference in 2000 and 2001 and in Manu-

¹ The MHCA was previously known as the Arizona Mobile Home Association, which is how the association was referenced in the 1999 report.

factured Housing Week at the Capitol. Additionally, the Department provides materials related to the Fund that the association uses and distributes as part of its training and outreach activities.

Fund Revenues Continue to Exceed Expenditures

Despite a large increase in the use of the Fund, Fund revenues continue to exceed expenditures, resulting in an excessive fund balance. In 1999, the Auditor General found that the Fund had been used on a limited basis and had an excessive balance. Two years later, despite the highest fund expenditures in seven years, the Fund's balance continues to grow. As such, the Department should study the Fund's use over the next three years and, if necessary, meet with homeowner and park owner associations to determine if changes are needed for the homeowner tax assessment.

Previous report found Fund's use limited—In the 1999 report, the Auditor General found few homeowners used the Fund and, as a result, it had a substantial balance. The 1999 report noted that few members of Arizona's significant population living in mobile homes had used the Fund to help defray relocation expenses in recent years. For example, while there were approximately 43,000 mobile homes on rental properties in Maricopa County alone, Fund monies helped to relocate a total of only 53 mobile homes in fiscal years 1997 and 1998. Further, according to the Department, the Fund had never been used to defray the cost of bringing pre-1976 mobile homes into compliance with current standards. As a result, between 1995 and 1999, the Fund expended only \$239,402, while gaining over \$3 million in assessments and interest, ending fiscal year 1999 with a balance of over \$5.1 million.

Use has increased but Fund balance continues to grow—Despite additional uses, the Fund balance has continued to grow during the past two years. Specifically, Laws 1999, Chapter 227 allowed homeowners to access the Fund if forced to move due to large rent increases, and increased the Fund cap from \$5 million to \$8 million in anticipation of increased use. Because experts dis-

Despite new uses, the Fund's balance continues to grow.

agreed about whether this new use for the Fund would result in increased demand, in 1999, the Auditor General recommended studying the Fund's use for two years before recommending any further changes to the cap. After the report, in 2000, the Fund's use was further expanded to include relocations resulting from the redevelopment of a mobile home park.

Despite a large increase in expenditures, the Fund's balance continues to grow. In fiscal years 2000 and 2001, as illustrated in Table 2 (see page 30), \$584,234 and \$458,719, respectively, was paid out in total assistance and administrative costs from the Fund, representing the largest expenditures recorded across a seven-year period. Approximately \$400,000 of these expenditures relate to a single event, the closure of two neighboring Phoenix mobile home parks owned by the same individual, and the relocation of 108 tenants and their homes. However, even during this period of record Fund expenditures, the Fund balance grew by over half a million dollars, exceeding \$5.8 million as of June 30, 2001. As a result, even if this level of Fund use continues, it would take approximately ten years to exhaust the Fund's balance, not including any revenues to the Fund.

Department should monitor Fund use—Since it is difficult to project the Fund's use and the amount of funding that will be needed to satisfy future claims, the Department should study the Fund's use over the next three years. Then, if necessary, it should work with the homeowner and park owner associations to determine if changes to the homeowner tax assessment are warranted. Although homeowners continued to be taxed, the Fund's interest alone was enough to cover over 50 percent of the relocation assistance and administrative expenses paid out between July 1999 and June 2001, and the Fund balance exceeds \$5.8 million. However, while it is difficult to project the future use of the Fund, industry experts indicate that rising land values may encourage more park owners to change the use of their land, while other owners may redevelop their current parks to accommodate newer mobile homes and retain their customers. These factors suggest that Fund use could remain high.

Department should study the Fund's use over the next three years.

Table 2
Arizona Department of Building and Fire Safety
Mobile Home Relocation Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Years Ended June 30, 1995 through 2001
(Unaudited)

	1995	1996	1997	1998	1999	2000	2001
Revenues:							
Homeowner tax assessments	\$ 379,138	\$ 377,040	\$ 452,573	\$ 445,912	\$ 527,274	\$ 568,937	\$ 550,267
Interest on investments	105,526	129,666	162,951	203,460	221,959	244,445	293,644
Collections from park owners ¹			12,500	12,600	5,000	17,400	3,900
Total revenue	484,664	506,706	628,024	661,972	754,233	830,782	847,811
Expenditures ²	7,768	50,108	77,171	53,858	80,597	584,234	458,719
Excess of revenues over expenditures	476,896	456,598	550,853	608,114	673,636	246,548	389,092
Fund balance, beginning of year	2,405,847	2,882,743	3,339,341	3,890,194	4,498,308	5,171,944	5,418,492
Fund balance, end of year	\$2,882,743	\$3,339,341	\$3,890,194	\$4,498,308	\$5,171,944	\$5,418,492	\$5,807,584

¹ Collection revenues for 1995 and 1996 are not readily available and expenditures for the same period are net of collections. The Department records collections as an individual reduction of expenditures.

² Includes payments made to mobile home owners and administrative costs.

Source: The Arizona Financial Information System Revenues and Expenditures by Fund, Program, Organization, and Object and Trial Balance by Fund reports for the years ended June 30, 1995 through 2001; and Accounting Event Extract File for the year ended June 30, 2001.

Recommendations

1. The Legislature should consider modifying A.R.S. §33-1476.01(H) to allow tenants to apply for and receive monetary assistance from the Fund up to 60 days after they have relocated.
2. The Department should study the Fund's use over the next three years and, if necessary, work with homeowner and park owner associations to determine if charges to the homeowner tax assessment are warranted.

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SUNSET FACTORS

In accordance with A.R.S. §41-2954, the Legislature should consider the following 12 factors in determining whether the Department of Building and Fire Safety should continue or be terminated.

1. The objective and purpose in establishing the agency.

The Department of Building and Fire Safety was established in 1986 through a merger of the Office of the Fire Marshal and the Office of Manufactured Housing. A.R.S. §41-2141 establishes the Department to further the public safety and welfare by reducing hazards to life and property through the maintenance and enforcement of the state fire code, and by maintaining and enforcing standards of quality and safety for manufactured homes, mobile homes, factory-built buildings, and recreational vehicles.

To meet this purpose, statutes charge the Department with a variety of responsibilities, including:

- Establishing a regularly scheduled fire safety inspection program for all state- and county-owned public buildings and all public and private school buildings throughout the State, except for private school buildings in cities with a population of 100,000 or more.
- Maintaining relevant standards and codes for manufactured housing safety by inspecting locations where manufactured homes, factory-built buildings, and recreational vehicles are manufactured, sold, or installed to ensure that the structures adhere to federal or state guidelines. The Department also establishes and maintains licensing standards and

bonding requirements for all installers of manufactured homes, mobile homes, and accessory structures.

- Administering the Mobile Home Relocation Fund, which assists owners of mobile homes who must relocate their homes when the park owner changes the use of the land their home rests on, renovates the park, or raises their rent by greater than a specific amount. Further, the Fund helps owners who live at or below the poverty line to bring their home into compliance with state codes prior to the home being moved.

2. The effectiveness with which the agency has met its objective and purpose and the efficiency with which it has operated.

Since the 1999 report, the Department has demonstrated significant operational improvements, but should make additional changes to improve its efficiency and effectiveness. Specifically, the Department:

- **Improved Fire Safety Inspections**—The Fire Marshal increased the efficiency of its building inspection program by developing a master inventory of buildings requiring inspections; reviewing each building in its inventory to assess the fire risk and using this assessment to assign an inspection priority; incorporating the complete building inventory and inspection priority into a computer database of buildings; developing appropriate re-inspection policies; and improving its recordkeeping system (see Finding I, pages 9 through 14).
- **Revised Installer Requirements and Training**—The Department has attempted to increase the expertise of licensed installers by approving a three-year experience requirement for installers and implementing a voluntary continuing education program. Additionally, the Department took steps to simplify the home

installation process by adopting new rules that presented installation requirements in clearer language and greater detail to licensees (see Finding II, pages 15 through 22).

Despite these improvements, the Department should take a number of steps to further enhance its effectiveness. Specifically, the Fire Marshal should determine how often a building should be inspected based on its inspection priority (see Finding I, pages 9 through 14). Additionally, the Department can improve the effectiveness of its home installation inspection function by identifying repeat violations of installation standards, and frequently occurring violations; taking appropriate action against licensees who repeat violations; and reducing the number of inspections associated with inspection permits from three to one (see Finding II, pages 15 through 22).

3. The extent to which the agency has operated within the public interest.

The Department has taken several steps to better serve the public interest. While the Auditor General's 1999 report found that the Fire Marshal failed to regularly inspect public buildings, the Fire Marshal has undertaken several improvements to the fire safety inspection process that should improve its ability to adequately identify and regularly inspect public buildings.

Additionally, the Department has taken a number of steps to facilitate public access and increase awareness of the Mobile Home Relocation Fund. The Department revised its policies and procedures to allow homeowners to access the Fund if park owners fail to notify the Department of a proposed change in use, and to pursue landlords who do not provide at least 180 days' notice of change of use. Additionally, the Department took steps to publicize the Fund with homeowners and educate park owners about their responsibilities regarding the Fund (see Finding III, pages 23 through 31).

4. The extent to which rules and regulations promulgated by the agency are consistent with the legislative mandate.

While the Department has promulgated many of the required rules, the Department's Fire Safety Committee should adopt rules relating to the Arson Detection Fund. The Committee, which has a number of responsibilities concerning the state fire code and other aspects of fire safety, was inactive for ten years until the Governor reactivated it in March 2001. As reported in a review by the Governor's Regulatory Review Counsel (GRRC), the Committee should adopt rules addressing how monies are allocated under the Arson Detection Award Fund as required by A.R.S. §41-2146(E).

5. The extent to which the agency has encouraged input from the public before adopting its rules, and the extent to which it has informed the public as to its actions and their expected impact on the public.

The Department's rules are developed and adopted through the Board of Manufactured Housing and the State Fire Safety Committee. According to the Department, the public is notified of proposed rules through the Arizona Administrative Register as well as through various industry and consumer-related newsletters, speaking appearances, brochures, and agency mailings.

The Board of Manufactured Housing and the State Fire Safety Committee also generally comply with the State's open meeting laws. The Board has posted public meeting notices at least 24 hours in advance at required locations while the Department reports that the Commission has done so as well. Also, both the Board and Commission make agendas available to the public. However, neither the Board nor the Committee have current statements of where meeting notices will be posted on file with the Secretary of State, as required by law. Specifically, the statement for the Board of Manufactured Housing specifies the notice will be posted at the Department's previous office location, while there is no statement on file for the

State Fire Safety Committee. The 1999 Auditor General's report also noted that the Board of Manufactured Housing did not have a statement on file with the Secretary of State.

6. The extent to which the agency has been able to investigate and resolve complaints that are within its jurisdiction.

The Fire Marshal has the authority to investigate complaints regarding fire safety at buildings within its jurisdiction. The Fire Marshal is in the process of implementing a system by which each complaint concerning a building is recorded in a log. When it receives complaints, the Fire Marshal investigates the complaint and, if necessary, orders any action necessary to bring the building into compliance with the state fire code.

Further, as part of its role in maintaining standards of quality and safety for manufactured homes, factory-built buildings, mobile homes, recreational vehicles, and accessory structures, the Department is charged with investigating complaints filed by purchasers within one year from the date of purchase or installation of units. The Department reports that it investigates all consumer complaints, and has statutory authority to issue penalties to licensees, including administrative penalties, probation, or license suspension or revocation.

7. The extent to which the attorney general or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation.

The attorney general is authorized to act for the Department in all legal actions or proceedings and advise the Department on all questions of law. These proceedings include administrative hearings regarding manufactured housing industry licensee penalties, as well as actions before Superior Court to cease and desist operations that constitute a fire safety hazard to life or property.

8. The extent to which the agency has addressed deficiencies in its enabling statutes, which prevent it from fulfilling its statutory mandate.

While legislation concerning the Department was not passed during the 2001 legislative session, in 2000, several bills were enacted that affect Department operations. Specifically:

- Laws 2000, Chapter 400 expanded the use of the Mobile Home Relocation Fund by allowing tenants forced to move due to the redevelopment of a mobile home park to collect money from the Fund to assist with moving expenses.
- Laws 2000, Chapter 118 revised the licensing requirements for mobile home dealers. The changes added bonding requirements for mobile home dealers and expanded the Board of Manufactured Housing's ability to adopt rules for establishing dealer trust and escrow accounts.
- Laws 2000, Chapter 232 allows local fire districts to assist the Fire Marshal in the enforcement of fire protection standards within their fire district, including the enforcement of the uniform fire code when authorized by the State Fire Marshal.

9. The extent to which changes are necessary in the laws of the agency to adequately comply with the factors listed in this section.

Based on audit work, the Legislature should consider modifying A.R.S. §33-1476.01(H) to allow tenants to apply for and receive monetary assistance from the Fund up to 60 days after they have relocated.

- 10. The extent to which termination of the agency would significantly harm the public health, safety, or welfare.**

Terminating the Department would potentially harm the public's health, safety, and welfare because the Department is responsible for ensuring thousands of public buildings across the State are free from fire hazards and maintaining and enforcing standards of safety in the mobile home industry. Additionally, the Department promotes public health and safety and reduces hazards to life, limb, and property by providing and coordinating training in firefighting and prevention with local fire departments. The Department also helps local jurisdictions by aiding in arson investigations and prescribing a uniform system for reporting fires.

- 11. The extent to which the level of regulation exercised by the agency is appropriate and whether less or more stringent levels of regulation would be appropriate.**

The level of regulation exercised by the Department is appropriate.

- 12. The extent to which the agency has used private contractors in the performance of its duties and how effective use of private contractors could be accomplished.**

Because many of the Department's duties are regulatory, these functions cannot be transferred to the private sector. However, the Department has entered into intergovernmental agreements with local jurisdictions to conduct fire safety and mobile home inspections. The Department has agreements with 30 city or rural fire departments to conduct fire safety inspections for state-, county-, and university-owned buildings, school district, and charter schools within their jurisdictions. According to the Department, these agreements have reduced the inspection workload for the State Fire Marshal. Also, the Department has con-

tracts that allow 68 cities and counties to inspect manufactured housing installations within their jurisdictions. The Department audits these jurisdictions to ensure they comply with manufactured housing installation codes.

AGENCY RESPONSE

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Jane Dee Hull
GOVERNOR



N. ERIC BORG
DIRECTOR

DEPARTMENT OF BUILDING AND FIRE SAFETY

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OFFICE OF ADMINISTRATION • OFFICE OF MANUFACTURED HOUSING • OFFICE OF STATE FIRE MARSHAL

September 17, 2001
ADOC #01-012

Debbie Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The Department of Building and Fire Safety has reviewed the revised report of the performance audit and submits the attached response.

We would like to thank you and your staff for acknowledging the significant progress the Department has made over the past 18 months. Additionally, the Department would like to express our appreciation to the audit team for their professionalism while conducting the audit. Please call me at (602) 255-4072 should you have further questions.

Sincerely,

A handwritten signature in cursive script that reads "N. Eric Borg".

N. Eric Borg, Director
DEPARTMENT OF BUILDING AND FIRE SAFETY
State of Arizona
NEB: cg

Enclosure:

Finding I: Fire Inspection Process Improved

The Department concurs with the overall finding that the fire inspection process is improved. In fact, the Auditor General correctly points out that 96% of the high priority inspections were completed.

The dedicated, hard working staff are to be congratulated for accurately inventorying over 19,000 buildings statewide in an 18 month period with no additional resources in order to assign the priority of inspections based upon the fire inspection priority policy. The sunset audit was conducted in the middle of a 24 month corrective action plan. The action plan called for a statewide inventory to be conducted, then an automated inspection program to be implemented including an automated system of follow-ups and management reporting to insure that as inspections with violations require follow-ups, staff and management are alerted so that appropriate action can be taken. Any inspections which require follow-up will be automatically assigned and if corrective action is not taken, management will be automatically alerted. The automated system is in place. The audit sample clearly shows that even though as much as 50% of the resources were dedicated to the inventory process, the high priority inspections were incredibly approaching 100%. Even when low priority inspections are considered (lower priority inspections may include such properties as an open field which may never require an inspection), the number is 85%. This proves the newly automated system is working.

Audit Recommendation 1

The Department should formalize its procedures for updating its charter school inventory on a quarterly basis.

Department Response

The Finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Audit Recommendation 2

The Department should:

- a. Develop policies that specify inspection time frames for its inspection priorities once it has assessed the impact of its inspection process on its workload; and
- b. Require documentation when inspection priority scores are changed.
- c. Ensure that data entry staff do not change inspection priority scores.

Department Response

a. The Finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The automated system, which is currently in place, assigns monthly workload based upon priority. The Department will automatically monitor the inspection and follow-up progress through its automated system, and determine whether or not additional resources are required to ensure that regular inspections are conducted with resources available. The Department needs to complete a full cycle of the priority assignments generated through the database before it can assess whether there is a need to assign specific timeframes to the priority assignments.

b. The Finding of the Auditor General is agreed to and the audit recommendation will be implemented.

c. The Finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Finding II: Some Steps Taken To Improve Installation Inspection Program

Audit Recommendation 1

The Department should develop a process to track and identify installers who repeat violations and take appropriate action against these licensees.

Department Response

The Finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Audit Recommendation 2

The Department should incorporate information on frequently occurring violations and how to prevent these violations in its voluntary training program.

Department Response

The Finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Audit Recommendation 3

The Department should reduce the number of inspections it provides for each permit from three to one.

Department Response

The Finding of the Auditor General is not agreed to and the recommendation will not be implemented.

The Department would like to thank the auditors for acknowledging the improvements made by the Department and the Board regarding the installations of manufactured homes in Arizona. Although the Board of Manufactured Housing and the Department disagree with the audit recommendation, we do agree with the underlying concept of creating greater efficiencies and reducing fees. After numerous meetings between the audit team and the Board and Department representatives, it became apparent that both sides were advocating a reduction in the number of reinspections for manufactured home installations. The Board and Department, however, do not agree that it is necessary to reduce the number of inspections issued per permit to achieve this. By implementing recommendations one and two above along with the already implemented increases in training, more rigid licensure requirements and the adoption of simpler installation rules, we feel that there will be a corresponding reduction in the number of reinspections required and thus the intent of the audit recommendation will be achieved.

The basis for the Board and the Department's position lies in the research and review of a random sample of 100 installation permits the Department conducted to attempt to validate or refute the auditor's 26 installations sample results. The data shows that 72% of the permits required at least two inspections to clear the basic life-safety functions such as the connecting of the sections, foundation systems and utility connections. Many reasons may account for this including the complex nature of the foundation system, site preparation and the fact that this work may be performed by different licensees under the same permit. These two inspections don't account for the addition of accessory structures (awnings, skirting, carports, garages, decks, etc.) which may be installed anytime within 180 days after the permit was issued.

Although the data shows that on average two inspections were required in over 72% of the installations, only five out of 100 installations required more than three inspections. Licensees are required to pay for the additional inspections at a rate of \$30 plus mileage. The Department feels that this data refutes the audit's assumption that installers requiring more inspections are being subsidized by installers requiring fewer inspections.

The data supports the auditor's contention that the inspections can be cleared with only one inspection (not accounting for accessory structures), but mostly in the case of single section units. Violations for multi-section homes were almost four times as prevalent as in single-section homes. Multi-section units have an inherent complexity due to their size and weight, the addition of the connecting of the sections, the crossover connections for the utilities and more complex foundation systems. The Department will look at this issue further to see what may be done.

When comparing Arizona's permit structure to its neighboring states, one sees this is not an "apples-to-apples" comparison. None of the neighboring states includes accessory structures on their initial permits. New Mexico doesn't provide safety inspections prior to occupancy of the units. Instead, New Mexico conducts an "audit" inspection approximately 90 days after the homeowner has moved into the home. There is no inspection to ascertain whether the gas, electric and foundations are safe before the homeowner moves in. Colorado's new program will start this September and allows installation inspections to be conducted primarily by third-party inspection companies and local jurisdictions with the state conducting the inspections as a last resort. California and Nevada charge \$120 and \$100 for initial inspections and \$66 and \$75 for re-inspections respectively – far more than the inspection cost in Arizona. While none of these states breaks down their data by single-section versus multi-section units, each of the states manufactured housing heads states that the one inspection per permit works with single-sections, but that multi-sections require more than one permit on average.

Further, it should be noted that the Office of Manufactured Housing is a 95%-105% funded program, and the Board of Manufactured Housing sets and adjusts

fees in order to remain within that percentage. The Department has collected in excess of the 105% for the past five years. The Board of Manufactured Housing decided to keep the permit fees at current levels and reduce other fees in order to stay within the 95-105% range.

Additionally, the Board looked at comparisons to the site-built industry. Local jurisdictions require more than one inspection for site-built homes due to the nature of their complexity and the usage of different sub-contractors. Today's manufactured homes are just as complex and also may use multiple sub-contractors per job site. Foundation systems, on-site drywall interiors, and utility work are just a few components that should be treated similarly to the site-built industry. With an average of two inspections per manufactured home, our industry requires far fewer inspections per home than the residential site-built industry.

Since the majority of manufactured homes sold in the western states are multi-section homes, it doesn't seem appropriate to reduce Arizona's current permitting system. The Arizona Board of Manufactured Housing, comprised of both industry and consumer representatives, studied this issue over the past eighteen months. They appointed a subcommittee to study this issue, requested the 100 permits sample from the Department, analyzed our neighboring states' permit systems and looked at permit systems for the site-built industry. The Board concluded that the current system of permits is appropriate for the usage in Arizona.

Again, the Board and the Department agree with the underlying intent of the audit recommendation, but not with the actual recommendation. The Board of Manufactured Housing will continue to monitor the number of inspections per fee, and should the Board of Manufactured Housing reverse it's position in the future, the Department will implement the fees passed by the Board.

Audit Recommendation 4

The Department should determine the costs of providing an inspection and revise its current fee, if necessary.

Department Response

The Finding of the Auditor General is not agreed to and will not be implemented. See response to recommendation 3.

Finding III: Department Has Acted To Improve Access To And Awareness of Relocation Fund.

Recommendation 1

The Legislature should consider modifying A.R.S. 33-1476.01(H) to allow tenants to apply for and receive monetary assistance from the Fund up to 60 days after they have relocated.

Department Response

The Finding of the Auditor General is not directed to the Department. The Department will implement whatever modifications the Legislature and the Governor's Office makes.

Recommendation 2

The Department should study the Fund's use over the next three years and, if necessary, work with homeowner and park owner associations to determine if changes to the homeowner tax assessment are warranted.

Department Response

The Finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Other Performance Audit Reports Issued Within the Last 12 Months

01-1	Department of Economic Security— Child Support Enforcement	01-11	Arizona Commission on the Arts
01-2	Department of Economic Security— Healthy Families Program	01-12	Board of Chiropractic Examiners
01-3	Arizona Department of Public Safety—Drug Abuse Resistance Education (D.A.R.E.) Program	01-13	Arizona Department of Corrections—Private Prisons
01-4	Arizona Department of Corrections—Human Resources Management	01-14	Arizona Automobile Theft Authority
01-5	Arizona Department of Public Safety—Telecommunications Bureau	01-15	Department of Real Estate
01-6	Board of Osteopathic Examiners in Medicine and Surgery	01-16	Department of Veterans' Services Arizona State Veteran Home, Veterans' Conservatorship/ Guardianship Program, and Veterans' Services Program
01-7	Arizona Department of Corrections—Support Services	01-17	Arizona Board of Dispensing Opticians
01-8	Arizona Game and Fish Commission and Department—Wildlife Management Program	01-18	Arizona Department of Correct- ions—Administrative Services and Information Technology
01-9	Arizona Game and Fish Commission—Heritage Fund	01-19	Arizona Department of Education— Early Childhood Block Grant
01-10	Department of Public Safety— Licensing Bureau	01-20	Department of Public Safety— Highway Patrol
		01-21	Board of Nursing
		01-22	Department of Public Safety— Criminal Investigations Division

Future Performance Audit Reports

Arizona Department of Corrections—Arizona Correctional Industries

Department of Public Safety—
Criminal Information Services Bureau
Access Integrity Unit, and
Fingerprint Identification Bureau