



JANICE K. BREWER
Governor

GENE PALMA
Director

**DEPARTMENT OF FIRE, BUILDING AND LIFE SAFETY
OFFICE OF THE DIRECTOR**

1110 W. WASHINGTON, SUITE 100
PHOENIX, AZ 85007
(602) 364-1003
Fax (602) 364-1052

September 26, 2011

Debra K. Davenport
Auditor General
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The Arizona Department of Fire, Building and Life Safety has reviewed the preliminary report draft of the performance audit and sunset review factors analysis. Please find the Department's attached response to the audit's findings and recommendations, as well as, the Department's reply to the sunset factor analysis.

The Department sincerely appreciates the time devoted by your audit team to understand the Department's operations, processes and procedures. I also would like to commend your staff for their professionalism throughout the audit process.

The recommendations identified in the report, which in some cases are already in the process of being implemented, will assist the agency in continuing its commitment to excellence in providing public safety, protecting consumers and facilitating commerce.

Thank you, again, for your consideration.

Respectfully,

Gene Palma

Final Audit Response
Department of Fire, Building Life and Safety
September 26, 2011

Background

The Department of Fire, Building and Life Safety ("Department") is looking forward to implementing the Auditor General's Office ("auditor") recommendations. Many of those cited by the audit are in areas that the Department had identified for improvement. The audit provides the Department impetus toward completing these projects and moving forward with other initiatives.

In 2010, as part of implementing the General Accounting Office's 2009 recommendations from its internal audit, the Department began implementing an activity analysis approach to evaluate the costs of the Department's activities, processes, procedures and tasks. This is an ongoing process that serves to assess the Department's cost efficiency and service effectiveness and when completed will provide the Department with a valuable management and budgetary tool.

As a result of going through the process the Department has already experienced improvement by:

- Creating separate department budgets and increased budget awareness and accountability.
- Identifying actual costs of processes and resources used to provide services
- Streamlining permitting and reporting processes
- Automating receipting and invoicing processes
- Electronically tracking staff resources and activity
- Specifically creating a position to manage the increased use of intergovernmental agreement and their compliance
- Implementing a new Fire Marshal database to better manage inspection activity.
- Increasing the public's online access to the Department license records

All of the above accomplishments have been achieved in the last 15 months and the Department thinks it is moving in a very positive direction. The Department realizes that much hard work still remains to be done. It has committed to making continuous improvement part of its operating philosophy and culture. The Department views this audit and its' recommendations as a springboard to gather constituent and legislative support to achieve its' objectives.

Finding 1: State Fire Marshal should ensure adequate inspection coverage and establish fees to cover costs.

Recommendations:

- 1.1 The office should implement and use its new inspection database to better manage, track, and prioritize inspections conducted by the Office and ensure oversight of inspections conducted by local fire authorities that have agreements to conduct inspections on the Office's behalf. Specifically, the Office should:
 - a. Track all inspections and specific information on violations found during inspections in its database.
 - b. Establish a system within its database to prioritize inspections based on fire risk, in conjunctions with recommendation 1.4.
 - c. Identify buildings in its database that are covered by agreements with local fire authorities, ensure newly constructed buildings in jurisdictions covered by the agreements are entered in its database, and enter inspection data for these buildings in its database.

The finding of the Auditor General is agreed to and the audit recommendations will be implemented.

The Department has recently implemented a new Fire Marshal database that is designed to better manage, track and prioritize inspections, and inspection information.

The capability to also track and oversee inspections done by local fire authorities is a feature that is planned to be added to the database in Spring 2012.

- 1.2 The office should solicit additional agreements with local fire authorities or private vendors to provide greater inspection coverage that would significantly reduce its inspection or plan review workload and/or reduce inspection costs, such as travel time.

The finding of the Auditor General is agreed to and the audit recommendation has been implemented.

The Office has increased the amount of agreements in place and is working diligently toward securing more. However, there are many local jurisdictions that, due to budget cuts and recent loss of fire inspection and plan review personnel, determine that participation in an agreement is not financially viable. Nevertheless, the Office will seek to increase the number of agreements especially in non-metro areas where the costs to the Office for providing services increase exponentially due to travel and lodging costs. Additionally, it should be noted that the Office is

statutorily limited to specific areas where private vendors may be appointed as Office designees.

- 1.3 The Office should establish and implement an oversight process for agreements with local fire authorities and private vendors, and ensure that agreements have been signed by both the Office and the agreement holder. This process should include enforcing the Office's quarterly report requirement, reviewing the information from these reports, and entering inspection information into its database, in conjunction with recommendation 1.1.c.

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

Based on a program recently initiated in the Manufacture Housing Department, the Department will develop an oversight process for agreements with local fire authorities and private vendors to ensure that proper administrative procedures are in place. The program will also confirm compliance of state statutory requirements.

- 1.4 As staff resources permit, the Office should establish a process to prioritize inspections based more fully on fire risk for buildings that have not been delegated to local fire authorities which would allow it to determine how frequently buildings should be inspected and then prioritize inspections accordingly based on available resources.

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

As staff resources permit, the Department will look into a system of prioritizing building inspections based on fire risk.

- 1.5 The Department should develop or adopt a structured approach to evaluate current fees and propose new fees that would recover Office costs. In developing this approach, the Department should do the following:
 - a. Assess the efficiency of its operations to ensure costs are as low as possible and document the results of its assessment. The Department should seek to minimize costs where possible.
 - b. Develop a method for tracking and allocating relevant costs, including both direct and indirect costs.
 - c. Identify the actual costs for specific activities for which fees are charged to help ensure fees are appropriate and equitable.
 - d. Consider the effect that proposed fee charges may have on inspected facilities and obtain their input when developing the proposed fees.

The finding of the Auditor General is agreed to and the audit recommendations have been implemented.

In order to assess the Department's cost efficiency and service effectiveness, in 2010, the Department began implementing an activity analysis approach to evaluate the costs of the Department's activities, processes, procedures and tasks. While this process has enabled the Department to apprise some of the existing fee structure regarding cost recovery, it is an ongoing process that has yet to be completed.

Additionally, the Department has changed its fire marshal timesheets to better reflect their activities and is reviewing methodology suggested by the auditors' for use in the allocation of indirect costs. Furthermore, the new fire marshal database will integrate timekeeping within its operation. Its reports tracking activity will give the Department more accurate and timely information to assess costs and effectiveness.

Finally, the Department has invested in user friendly software that accurately tracks fire marshal administrative time. The amount of time each user spends on a particular task or activity is tracked. This facilitates an accurate measure of time spent on a process or project making it easier to assign costs to that process or project.

- 1.6 Once the approach is developed or adopted, the Department should use it to propose new fees to the State Fire Safety Committee that recover its costs. If the proposed fees are significantly higher than the current fees, the Department should consider recommending increasing fees gradually.

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

- 1.7 Once the Department has developed its proposed fees and obtained approval for these proposed fees from the State Fire Safety Committee, it should seek legislation modifying statute that allows it to charge the proposed fees to recover its inspection costs, similar to local fire authorities.

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

The Department will begin discussions with the appropriate parties to explore legislative changes that would enable the Department to charge fees to recover its inspections costs, just as present statute allows local jurisdictions to do.

- 1.8 The Department should work with the Governor's Office to solicit applications and appoint members to the State Fire Safety Committee.

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

The Department will contact the Governor's Office to fill the vacancies on the State Fire Safety Committee.

Finding 2: Department should ensure its fees fully cover its manufactured housing and modular building regulatory costs.

2.1 To ensure its fees more fully reflect its costs, the Department should develop or adopt a structured approach to evaluate current fees and propose new fees to the Board that would fully cover all department costs related to the regulation of the manufactured housing and modular building industries, and ensure that specific fees are appropriate for the specific activities. In developing this approach, the Department should do the follows:

- a. Continue its efforts to assess the efficiency of its operations to ensure costs are as low as possible and document the results of its assessment. As the Department assesses the efficiency of its operations, it should continue seeking to minimize costs where possible.
- b. Develop and finalize a method for tracking and allocating relevant department costs, including both direct and indirect costs. For example, to track personnel costs, the Department could use its new time accounting system and its revised monthly time-tracking reports to determine the amount of time staff spend on activities that support the regulation of the manufactured housing and modular building industries.
- c. Identify the actual costs for specific activities for which fees are charged to help ensure fees are appropriate and equitable. In addition, fees should take into account factors that affect the cost of a specific activity.

The finding of the Auditor General is agreed to and the audit recommendations will be implemented.

In order to assess the Department's cost efficiency and effectiveness, the Department has adopted an activity analysis approach to analyze the Department's activities, processes, procedures and tasks. This analysis will enable the Department to assess the existing fee structure relative to its ability to recover costs.

In 2010 the Department began gathering data about the various types of installations and steps in each process to determine the number of inspection trips, inspection time spent, and average mileage used for each type of installation. However, the Department has not yet finalized a cost analysis of installation permit fees. Additionally, the Department implemented time tracking spreadsheets for all inspectors to record the time spent on their specific tasks. This data will assist in determining resource availability for cross training and reallocation. In 2011, these

sheets were modified and implemented by all Department inspectors, including Deputy Fire Marshals. The Department is also reviewing indirect cost allocation methodologies to determine the appropriate cost allocation methodology for the entire Department.

However, as discussed under the finding, "Department fees do not fully recover costs" the auditor's premise for this finding is based on a different interpretation of A.R.S. §41-2144(A)(4), than the Department has historically employed. The Department's method of cost calculation in presenting data to the Board of Manufactured Housing ("Board") when considering fees has not previously been questioned nor been an issue of concern.

The auditor, however, includes the costs of Licensing, Audits and Complaints (functions) in its cost recovery calculation. Because A.R.S. §41-2171 establishes and defines the purpose of a separate Office of Administration, ("... to provide the administrative services necessary to facilitate the operation of the office of manufactured housing and office of state fire marshal, including procedures to ensure compliance with laws and rules relating to these offices.") and because those functions fall under the purview of the Office of Administration, the Department has not considered their cost part of OMH. As such the Department has not included such expenditures in its cost calculations to the OMH Board for the purpose of reviewing fees.

2.2 Once developed or adopted, the Department should use this approach to assess its fees and propose new fees to the Board. If proposed fees are significantly higher than current fees, the Department might recommend increasing fees gradually. The Board should consider the effect that proposed fee changes may have on the affected industries and obtain their input when reviewing the fees.

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

The ultimate authority in setting fees is the Board and the Department is committed to providing the Board the information necessary to make informed decisions. Therefore, in its role as information facilitator the Department is willing to present to the Board a new perspective on cost calculation and accordingly implement the Board's decision.

2.3 The Department should develop and implement policies and procedures for using the method to propose the annual fees to the Board.

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

It should be noted that any methodology developed must be adjusted by unknown variables such as trends in the housing industry's production and sales. Variability in these areas directly impacts the Board and the Department's ability to estimate

with any approximate accuracy the revenue that will be derived from fees and thus the extent to which costs will be covered.

Finding 3: Department has incorrectly spent some Mobile Home Relocation Fund Monies.

- 3.1 The Department should establish a methodology for charging appropriate direct and indirect costs to the Mobile Home Relocation Fund by:
 - a. Identifying and tracking the costs associated with activities that can be paid from the Fund.
 - b. Tracking the actual time employees spend on all activities that can be paid from the Fund; and
 - c. Considering GAO's assistance as needed to help ensure that it charges appropriate costs to the Fund.

The finding of the Auditor General is agreed to and the audit recommendations will be implemented.

While the Department has agreed to the finding it believes that a clarification is necessary. There is no disagreement that excessive use of the Fund can be attributed to insufficient tracking of staff time and resources related to Fund activities. However, because inspector activity tracking and cost analysis of Department activities did not occur until 2010 there was no allocation method available other than basing funding on past activity. Since 2008 was a high activity year it provided a "conservative" estimate in the sense that whatever monies that were allocated would most probably cover the resource costs incurred. The allocation and use, of Relocation Fund monies have been based on 2008 activity levels.

Therefore, the term "incorrect" means that an employee whose relocation activity was minimal; may have had his/her salary over allocated from the relocation fund based on past recorded activity. However, all activities that were initially funded were related, directly or indirectly to Fund purposes.

- 3.2 The Department should develop and implement policies and procedures to ensure that the costs charged to the Fund accurately reflect the activities it needs to perform to support the Fund's purpose and that resulting expenditures are periodically reviewed. For those expenditures that were inappropriately paid from the Fund, the Department needs to determine how they should be paid in the future.

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

In order to assess the Department's cost efficiency and service effectiveness In 2010, the Department began implementing an activity analysis approach to evaluate the costs of the Department's different activities, processes, procedures and tasks. The process has allowed the Department to identify the costs for certain processes and potential areas for improvement.

Timesheets have been modified to better identify inspector activities and resources. Finally, the Department has invested in user friendly software that accurately tracks administrative time associated with relocation fund activities. The amount of time each user spends on a particular task or activity is tracked. This facilitates an accurate measurement of time spent on a process or project making it easier to assign costs to that process or project.

The Department is also reviewing cost allocation methodology suggested by the auditors' for use in the allocation of indirect costs.

Clarification

The Department needs to clarify the auditor's assertion that by "incorrectly allocating costs to the Fund" the Fund has been kept from reaching \$8 million, a point at which tax assessments should no longer be collected. While the Department has agreed with the finding that the Department has "incorrectly" spent some Fund monies, as described above, the Department thinks it is important to provide further context.

It is imperative to point out that tax assessments and relocation payments, both NOT in the Department's control, are also part of the formula that makes up the fund balance. During the same time period identified by the auditor, tax assessments have decreased 16%, thus less has been added to the Fund balance by tax receipts. More importantly, relocation payments to mobile home tenants increased 441% over last year, again, significantly impacting reduction of the Fund balance.

Finally, the Department's 44% overall decrease in Fund use must be acknowledged, as well as, noting that the Fund balance decrease identified by the auditor actually represents only a 9% decrease from 2009 to 2011. Decreased tax receipts and very significant increased use of government aid to individuals are both factors that are common during challenging economic periods such as the country and state are currently experiencing.

All of the above referenced data is based on the same data, Table 2 in the audit, which the auditors utilized.

- 3.3 The Department should consult with its Assistant Attorney General to determine whether money should be repaid to the Fund, and if so, the amount to be repaid and an appropriate timetable for repayment.

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

Sunset Factors Recommendations

Sunset Factor 2

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

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

Sunset Factor 4

The Department should adopt administrative rules for the payment of monies from the Mobile Home Relocation Fund as required in A.R.S. §33-1476.01(H).

To comply with A.R.S. §41-2167(A), the Office of the State Fire Marshal should ensure its guidance from bylaws of the Arizona Chapter of the International Association of Arson Investigators is adopted in administrative rules and is consistent with statutory requirements.

As recommended in the Office of the Auditor General's 2001 performance audit on the Department, the Department should adopt administrative rules addressing how monies from the Arson Detection Reward Fund should be allocated as required by A.R.S. §41-2146(E) (Report No. 01-23). Specifically, rules should specify how monies for this fund's two purposes—providing reward monies and promoting awareness of the fund—will be allocated.

The finding of the Auditor General is agreed to and the audit recommendations will be implemented.

Sunset Factor 6

The Department should better monitor its timeliness for resolving consumer complaints by ensuring its management reports assess compliance with the required 60- and 120-day time frames.

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