



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Performance Audit Division

---

Performance Audit

# Office of Pest Management— Restructuring

---

January • 2010  
REPORT NO. 10-01



**Debra K. Davenport**  
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

## The Joint Legislative Audit Committee

---

Representative **Judy Burges**, Chair

Senator **Thayer Verschoor**, Vice-Chair

Representative **Tom Boone**

Senator **Pamela Gorman**

Representative **Cloves Campbell, Jr.**

Senator **John Huppenthal**

Representative **Rich Crandall**

Senator **Richard Miranda**

Representative **Kyrsten Sinema**

Senator **Rebecca Rios**

Representative **Kirk Adams** (*ex-officio*)

Senator **Bob Burns** (*ex-officio*)

## Audit Staff

---

**Melanie M. Chesney**, Director

**Dale Chapman**, Manager and Contact Person

**Robin Hakes**, Team Leader

**Sara Bessette**

Copies of the Auditor General's reports are free.  
You may request them by contacting us at:

### **Office of the Auditor General**

**2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333**

Additionally, many of our reports can be found in electronic format at:

**[www.azauditor.gov](http://www.azauditor.gov)**



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

January 11, 2010

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Ellis M. Jones, Acting Director  
Office of Pest Management

Donald Butler, Director  
Department of Agriculture

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Office of Pest Management—Restructuring. This report is in response to Laws 2008, Ch. 309, §23 and was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1279.03. I am also transmitting with this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

Included with this report are written responses from the Office of Pest Management and the Department of Agriculture.

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

This report will be released to the public on January 12, 2010.

Sincerely,

Debbie Davenport  
Auditor General

Attachment



## REPORT HIGHLIGHTS PERFORMANCE AUDIT

### Our Conclusion

In 2008, the Legislature established the Office of Pest Management (Office) in the Department of Administration and directed the Auditor General to recommend an appropriate option for the Office's "reorganization and restructuring." We evaluated four options and considering the Office's purpose, its regulatory functions, the need for accountability and responsiveness to the public and the regulated community, and the potential for efficiency gains, it appears that consolidation within the Department of Agriculture (Agriculture) is the best option for restructuring the Office.



# 2010

January • Report No. 10 - 01

## Consolidation within Agriculture best option for restructuring

The Office regulates the structural pest management industry by licensing applicators and businesses, conducting inspections, investigating complaints, and disciplining licensees who have committed violations.

**Elements considered for office restructuring**—To evaluate the options, we used four elements that research identifies as critical to consider when restructuring an agency:

- Agency mission and purpose
- Regulatory nature of the agency
- Accountability and responsiveness to the public and the regulated industry
- Potential efficiency gains for the State

**Most potential benefits come from consolidation within Agriculture**—Most other states (39) primarily regulate structural pest management under an agriculture agency, and this option appears to offer the most benefits to Arizona.

Agriculture and the Office both have missions to protect public health and the environment by ensuring the proper use of pesticides. Both agencies perform similar regulatory functions, including licensing, inspecting, and investigating complaints, with Agriculture focused on agricultural pesticide use and the Office focused on structural pesticide use. Because both agencies perform similar functions, this option offers potential efficiency gains through combining these functions. Agriculture officials also indicated that it makes sense to have one pesticide regulatory agency in the State and that Agriculture possesses similar expertise as the Office.

Placing the Office within an agency such as Agriculture that reports directly to the

Governor would help ensure accountability. Continuing the Pest Management Advisory Committee, which advises the Office, or having the Department of Agriculture Advisory Council assume this committee's advisory role would promote responsiveness to the public and the regulated community.

According to five structural pest management industry representatives we interviewed, two preferred this option and the other three indicated that if the Office were not made a stand-alone agency and were consolidated within another agency, the most preferred option would be Agriculture.

**Fewer potential benefits come from consolidation within Environmental Quality**—Only five states and the District of Columbia regulate structural pest management under an environmental control agency, and this option appears to offer fewer potential benefits.

Both the Office's and the Department of Environmental Quality's (Environmental Quality) missions focus on protecting public health and the environment, but Environmental Quality's mission does not include a specific focus on the safe use of pesticides. Further, although Environmental Quality monitors soil and groundwater for pesticide contamination, it does not regulate pest management or perform similar regulatory functions. In fact, an environmental quality official indicated that the agency does not have the funding and expertise to regulate pest management. Also, there is limited potential for efficiency gains.

Finally, the five structural pest management industry representatives we interviewed indicated they would not prefer this option.

### **Continuation in Administration offers few benefits—**

Other than Arizona, no state regulates structural pest management within an administrative agency. The Department of Administration's (Administration) and the Office's missions are not similar, and Administration is not a regulatory agency, nor does it have any responsibilities for regulating pesticides. Similar to Environmental Quality, this option offers limited efficiency gains. An administration official told us that it would not be the optimal solution to keep the Office permanently within Administration because the two agencies' missions are different.

The five structural pest management industry representatives we interviewed indicated they would not prefer this option, with four stating that Administration does not have the knowledge or expertise to regulate pest management.

### **Operation as a stand-alone agency offers fewest benefits and fails restructuring tests—**No state

regulates structural pest management as a stand-alone agency, and we did not find a need or justification for creating a stand-alone agency in Arizona. The primary tests for whether an agency should stand alone is whether it has a unique function or to promote independence from the rest of the State because it should act more like a private sector company or has a specific fiscal function. Because its mission and functions are similar to those of Agriculture and do not require it to be independent, the Office does not meet these tests.

However, three of the five structural pest management industry representatives we interviewed said they would prefer this option, indicating that Arizona's structural pest management industry is large and this option offers the best opportunity to have the necessary staffing to protect the public.

## Options for structuring the Office within Agriculture

In consolidating the Office within Agriculture, two options hold the most promise for the Legislature's consideration:

### **1. Merging all pesticide regulation activities into a new, comprehensive pesticides program within Agriculture—**

Under this approach, all of Agriculture's pesticide activities and the Office's activities would be transferred to a new, comprehensive program within Agriculture. This option potentially enhances effectiveness by focusing solely on pesticide regulation. It would also promote some efficiency by allowing Agriculture to combine both agricultural and structural pest inspections and investigations. However, other potential efficiencies from combining licensing and registration functions—most of which Agriculture performs in a central licensing area—would be lost.

Eight of ten states we surveyed have created a comprehensive pesticides regulation program within their agricultural agencies. Officials from five of these states reported that this provides increased coordination and consistency for pesticide regulation and one-stop shopping for all pesticide needs. However, agriculture officials do not favor this option because it potentially produces fewer efficiency benefits. Structural pest management industry representatives also did not prefer this option, but agreed it could work, especially if some specialization

was maintained in structural pest issues.

### **2. Integrating office functions with existing Agriculture functions—**

This option may promote greater efficiency but less effectiveness. Under this approach, the Office's licensing function would be placed in Agriculture's central licensing area. The Office's inspection and complaint investigation functions would be combined with Agriculture's other inspection and investigation functions. However, because Agriculture regulates pesticides in separate programs/areas in its Environmental Services Division, and because these programs also regulate other products, such as feed, fertilizer, and seed, the focus on pesticide regulation could potentially be diluted.

Two of the ten states we surveyed have organized their pesticide regulation in this manner. Agriculture officials preferred this option because of the potential for greater efficiency gains. Structural pest management industry representatives were divided about this option because of concerns such as diluting office and agriculture staffs' knowledge and expertise.

### **Additional factors to consider when restructuring the Office—**

The report also discusses additional factors to consider, including funding, potential for cost savings, transition planning, and the continuation of the Pest Management Advisory Committee.

# TABLE OF CONTENTS



Introduction & Background	1
Finding 1: Consolidation within Department of Agriculture offers best option for restructuring Office of Pest Management	7
Options for placing the Office within state government	8
Options for structuring the Office's functions within Agriculture	15
Additional factors to consider when restructuring the Office	21
Recommendations	24
Appendix A: Methodology	a-i
Appendix B: Bibliography	b-i
Agency Response	
Table:	
1 Schedule of Revenues, Expenditures, and Changes in Fund Balance Fiscal Years 2008 through 2010 (Unaudited)	4



# INTRODUCTION & BACKGROUND

---

The Office of the Auditor General has conducted a performance audit of the Office of Pest Management (Office) pursuant to Laws 2008, Ch. 309, §23, and Arizona Revised Statutes (A.R.S.) §41-1279.03. This audit presents options for placing the Office in various state agencies and for organizing its functions effectively and efficiently. The Legislature did not continue the Office's predecessor, the Structural Pest Control Commission, beyond its July 1, 2008, statutory termination date and instead created the Office of Pest Management within the Department of Administration. Laws 2008, Ch. 309, §23, directed the Auditor General to make recommendations for the Office's reorganization and restructuring.

This is the first of two audits that the Auditor General will conduct pursuant to Laws 2008, Ch. 309, §23. The second report, as outlined in statute, will provide recommendations for regulating the pest management industry in a manner that most effectively protects the general public.

## Office's purpose and responsibilities

The Office's mission is:

*To advocate and promote, through education, training and enforcement, the safe application of pest control technologies, which will result in the maximization of the health and safety of the residents of Arizona, and the protection of their property and the environment.*

To accomplish this mission, the Office issues and renews licenses; conducts investigations concerning potential violations of statute; disciplines licensees who have committed violations; and inspects pest management companies to protect the public from harm resulting from improper pest management. Specifically:

- **Licensing**—As required by statute, the Office issues licenses to businesses, applicators, and qualifying parties (see textbox, page 2, for a description of each type). As of November 2009, the Office reported licensing 1,133 businesses,

The Office issues licenses and conducts investigations and inspections.

## License types:

**Business**—Entitles the licensed person or entity and that person's or entity's employees to engage in the business of structural pest management.

**Applicator**—A person who applies pesticides and conducts wood-destroying insect and fungi inspections.

**Qualifying Party**—A person responsible for supervising, training, and equipping pest management business applicators.

Source: Auditor General staff analysis of Laws 2008, Ch. 309, and the Office of the Auditor General Report No. 07-05.

6,900 applicators, and 1,431 qualifying parties in Arizona. Applicators and qualifying parties are licensed in various categories of structural pest management, including general pest management, wood-destroying insect management, fumigation, wood-destroying insect inspection, and aquatic pest management. Licenses must be renewed annually.

- **Complaint Investigations**—According to statute, the Office must investigate all potential violations of state laws involving licensees. A.R.S. §32-2321 lists 16 actions that constitute statutory violations that are grounds for disciplinary action. These various actions include making falsified or fraudulent records/reports, misrepresenting a material fact in obtaining a license, and misusing various pesticides. According to office staff, the Office investigated a total of 273 complaints in fiscal year 2009.

When office investigators substantiate violations, according to statute, the Acting Director can take disciplinary action, including the following:

- Revoke, suspend, or refuse to renew a license;
- Impose a probation that requires the business licensee, licensed applicator, or qualifying party to comply with one or more specific provisions and requires reporting by or monitoring of the licensee;
- Impose a civil penalty in an amount of not more than \$1,000 for each violation;
- Issue an administrative warning; or
- Issue cease-and-desist orders to and impose civil penalties on unlicensed structural pest management businesses.

In fiscal year 2009, the Office reported that it issued 19 administrative warnings, collected \$9,955 in fines, revoked one license, and assigned one licensee to probation.

- **Inspections**—As authorized by state law, the Office inspects pest management companies to protect the public from harm resulting from improper pest management. There are three primary types of inspections:
  - Office inspections include verifying that licensed pest management companies properly maintain required records;
  - Use inspections verify proper and safe pesticide applications; and
  - Vehicle inspections include verifying that the chemical storage and safety equipment on vehicles is maintained.

The Office reported that in fiscal year 2009 it conducted a total of 6,382 inspections, including 1,332 office; 1,951 use; 1,351 vehicle; and 1,748 other inspections.<sup>1</sup>

In fiscal year 2009, the Office reported conducting 6,382 inspections.

The inspections that the Office performs also include inspections required by the Office's cooperative agreement with the U.S. Environmental Protection Agency (EPA).<sup>2</sup> This agreement required the Office to conduct the following inspections for federal fiscal year 2009: 20 wood-destroying insect pesticide applications at any location, 10 pesticide applications at schools, 10 pesticide applications at food establishments, 10 pesticide applications at healthcare facilities, 10 pesticide applications at golf courses and aquatic areas, and 20 pesticide applications at childcare or other facilities.

By performing these functions, the Office also performs the State's responsibilities under the provisions of the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), which grants states the primary responsibility for enforcing pesticide regulation.

In addition to the activities listed above, statute also requires that each time a pest management company inspects or treats a structure for termites, it must submit a Termite Action Registration Form (TARF) and a filing fee to the Office within 30 days. Statute requires the form to include information on the termite inspection or treatment, including the name of the business performing the work and the type and date of the work performed. The information from these forms is maintained in a database, which is made available to the public.

## Budget and staffing

The Legislature appropriates monies to the Office from the Pest Management Fund (Fund) annually. The Fund contains revenues derived principally from licensing fees and charges for services, such as TARF filing fees. The Office deposits 90 percent of its fees, including charges for services, into the Fund and remits the remaining 10 percent to the State General Fund. The Office deposits all monies from civil penalties into the State General Fund.

<sup>1</sup> Other inspections consisted of wood-destroying insect and childcare facilities inspections, as well as inspections of licensed certified applicator records.

<sup>2</sup> The Office has a cooperative agreement with the EPA in which it agrees to monitor specialized locations for pesticide use violations. The EPA reimburses the Office for these inspection costs.

**Table 1: Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Fiscal Years 2008 through 2010  
(Unaudited)**

	<b>2008</b> (Actual)	<b>2009</b> (Actual)	<b>2010</b> (Estimate)
<b>Revenues:</b>			
Charges for services	\$1,216,132	\$1,190,901	\$1,318,441
Licenses, permits, and fees	475,155	470,491	547,948
Federal grants	52,125	109,500	109,500
Fines, forfeits, and penalties	<u>19,345</u>	<u>11,057</u>	<u>8,455</u>
Gross revenues	1,762,757	1,781,949	1,984,344
Remittances to the State General Fund <sup>1</sup>	<u>(190,292)</u>	<u>(181,654)</u>	<u>(194,938)</u>
Net revenues	<u>1,572,465</u>	<u>1,600,295</u>	<u>1,789,406</u>
<b>Expenditures and operating transfers<sup>2</sup></b>			
Personal services and employee-related	1,946,849	1,673,648	1,701,164
Professional and outside services	95,078	60,572	62,707
Travel	135,125	144,415	121,749
Other operating	362,000	366,236	382,084
Equipment	<u>47,541</u>	<u>72,697</u>	<u>24,081</u>
Total expenditures	2,586,593	2,317,568	2,291,785
Operating transfers out <sup>3</sup>	<u>27,535</u>	<u>585,368</u>	<u>6,000</u>
Total uses	<u>2,614,128</u>	<u>2,902,936</u>	<u>2,297,785</u>
Net change in fund balances	(1,041,663)	(1,302,641)	(508,379)
Fund balance, beginning of year <sup>4</sup>	<u>2,943,481</u>	<u>1,901,818</u>	<u>599,177</u>
Fund balance, end of year	<u>\$1,901,818</u>	<u>\$ 599,177</u>	<u>\$ 90,789</u>

<sup>1</sup> As required by A.R.S. §32-2305, the Office remits 10 percent of fees and 100 percent of all collected civil penalties to the State General Fund.

<sup>2</sup> Administrative adjustments are included in the fiscal year paid.

<sup>3</sup> The fiscal years 2008 and 2009 amounts include \$26,600 and \$581,700, respectively, transferred to the State General Fund as required by Laws 2008, Ch. 285, §§24 and 46, and Laws 2009, 1st S.S., Ch. 1, §7.

<sup>4</sup> The fiscal year 2008 amount was adjusted by approximately \$41,500 for revenues collected prior to fiscal year 2008 that were held by the Office's credit card vendor until transferred to the Office's account in fiscal year 2009.

Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* for fiscal years 2008 and 2009; the AFIS Management Information System *Status of General Ledger-Trial Balance* screen for fiscal years 2008 and 2009 as of October 23, 2009; and office-provided estimates for fiscal year 2010.

Table 1 illustrates the Office's actual revenues and expenditures for fiscal years 2008 and 2009 and estimated revenues and expenditures for fiscal year 2010. The Office received nearly \$1.8 million in gross revenues in fiscal year 2009, which represents more than a 47 percent decrease from the nearly \$3.4 million in revenues the Commission received in fiscal year 2006. According to an office official, this can be attributed to the severe economic depression affecting new home construction and home resale, resulting in reduced revenue from TARF filing fees as the need for termite inspections, final grade, and pre-treatment services has diminished. Additionally, although the Office has estimated that it will receive more than \$1.98 million in gross revenues in fiscal year 2010, these revenues are still significantly lower than the Commission's fiscal year 2006 revenues.

Because of its declining revenues, the Office has relied on the Pest Management Fund's fund balance to pay for its operations. Specifically, actual expenditures for fiscal years 2008 and 2009 and estimated expenditures for fiscal year 2010 exceed revenues. For example, in fiscal years 2008 and 2009, expenditures exceeded gross revenues by \$823,836 and \$535,619, respectively, and the Office estimates that its fiscal year 2010 expenditures will exceed gross revenues by \$307,441. To help generate additional revenues for the Office, the Legislature passed Laws 2009, 4th S.S., Ch. 3, §28, in November 2009, which authorized the Office to raise its fees effective November 30, 2009.

For fiscal year 2010, the Legislature authorized a total of 40 full-time equivalents (FTEs) for the Office. As of November 2009, the Office reported having a total of 28 staff and 12 vacancies. In addition to the Acting Director, the Office has three assistant directors responsible for overseeing compliance and enforcement, information technology service, and licensing, and an administrative services officer. The Office also has 1 information technology specialist and 4 administrative or financial specialists. The remainder of the office staff includes 5 licensing staff, 5 inspection staff, 5 investigation staff, 1 inspection and investigation supervisor, and 2 project specialists.

As of November 2009, the Office reported having 28 staff and 12 vacancies.

## Scope and objectives

This audit stemmed from a statutory charge directing the Auditor General to make recommendations to the Legislature for the office's reorganization and restructuring. Prior to July 2008, the Structural Pest Control Commission (Commission) performed the Office's functions. However, in response to concerns about the Commission, the Legislature did not continue the Commission beyond its July 1, 2008, statutory termination date, and instead passed Laws 2008, Ch. 309, which established the Office within the Department of Administration. Laws 2008, Ch. 309, §23, also required the Office of the Auditor General to conduct a review of the Office focusing on its restructuring and reorganization. As a result, this report includes options for where and how the Office might be placed and how its functions might be merged with another agency's existing functions. Laws 2008, Ch. 309, §23, specified that the Auditor General could not recommend a structure that is the same as or similar to the structure of the former Commission.

The methods used to develop and analyze the options discussed in this report are discussed in Appendix A (see pages a-i through a-ii).

The Auditor General and staff express appreciation to the Acting Director and staff of the Office of Pest Management for their cooperation and assistance throughout the audit.



# FINDING 1

---

## Consolidation within Department of Agriculture offers best option for restructuring Office of Pest Management

Options for restructuring the Office of Pest Management (Office) involve two main considerations: (1) determining where the Office could be placed within the structure of state agencies and programs; and (2) if the Office were placed in another agency, determining how the Office's functions could best be merged with that agency's existing functions. With regards to each consideration, auditors found the following:

- Consolidating the Office within the Department of Agriculture (Agriculture) appears to offer the most benefits. Auditors' review of literature and other state information suggested two options for consolidating the Office within another agency—either Agriculture or the Department of Environmental Quality (Environmental Quality). Other options include maintaining its current location within the Department of Administration (Administration) or making it a stand-alone agency.
- Among the options for structuring the Office within Agriculture, two appear to hold the most promise. One would merge all pesticide-related activities, including those already performed by Agriculture, into a new, comprehensive pesticides program. The other would separate the Office's various pesticide functions (licensing, inspections, and complaint investigations) into existing agriculture units that are responsible for these functions. A third option, keeping the Office largely intact within Agriculture, offers fewer benefits.

Regardless of the option chosen, implementation issues regarding funding, cost-savings, transition planning, and use of an advisory committee would also need to be addressed.

## Options for placing the Office within state government

Using elements identified in research as critical to consider when restructuring an agency, auditors evaluated four placement options and determined that consolidating the Office within Agriculture appeared to offer the greatest potential benefits to the State. The elements used in the analysis were (1) the agency mission and purpose; (2) the regulatory nature of the agency and whether it has any responsibility for regulating pest management; (3) accountability to the public, State, and regulated community; and (4) the potential for efficiency gains for the State (see textbox). A more detailed discussion of auditors' evaluation of each of these four options follows.

### Placing the Office within Agriculture offers most potential benefits—

Placing the Office within Agriculture offers the best option for continuing the regulation of the structural pest management industry. Specifically the Office's and Agriculture's missions and purposes are closely aligned, both agencies have responsibilities for regulating pest management and perform similar functions, and placing the Office within Agriculture would enhance accountability to the Governor and responsiveness to stakeholders. Additionally, this option offers the potential for some efficiency gains by combining similar administrative and regulatory functions and potentially reducing the number of people needed to perform these functions. According to auditors' review of the Association of American Pesticide Control Officials' Web site and other state information, 39 other states primarily regulate the structural pest management industry within an agricultural agency. Agriculture officials also indicated that it makes sense to have one pesticide regulatory agency in the State and that Agriculture possesses a similar level of pesticide regulatory expertise as the Office. Auditors' analysis showed:

#### Elements considered for office restructuring:

- **Mission and purpose**—Is the restructured organization's mission and purpose consistent with or inclusive of the Office's mission to advocate and promote the safe application of pest management technologies that protect public health and the environment?
- **Regulatory/functional alignment**—Is the restructured organization a regulatory agency? Does it have regulatory and enforcement powers? Does it have any responsibility to regulate the use and/or application of pesticides? Does the restructured organization perform functions such as licensing, inspections, and complaint-handling?
- **Accountability**—Is the restructured organization adequately accountable and responsive to various stakeholders, including those in government, industry, and the public?
- **Efficiency**—Does the restructured organization offer the potential for efficiency gains, such as consolidating administrative and regulatory functions?

Source: Auditor General staff analysis of literature for the restructuring of government programs (see Bibliography, pages b-i through b-iv).

Both Agriculture and the Office have missions to protect public health and the environment by ensuring the proper use of pesticides.

- **Mission and purpose**—Both Agriculture and the Office have missions to protect public health and the environment. Specifically, Agriculture's Environmental Services Division's (Division) mission is "to protect public health, agricultural workers, and the environment by ensuring the proper use of crop protection products." Part of this mission involves protecting the public and the environment by monitoring the proper use and application of pesticides. Similarly, the Office's mission is "to advocate and promote, through education, training and enforcement, the safe application of pest

control technologies, which will result in the maximization of the health and safety of the residents of Arizona, and the protection of their property and the environment.”

- **Regulatory/functional alignment**—Similar to the Office, Agriculture has responsibilities for regulating pest management and performs the same regulatory functions for agricultural pesticides as the Office does for structural, nonagricultural pesticides. Specifically, statutes require Agriculture’s inspectors to confirm licensee compliance with state agricultural pesticide laws and regulations by monitoring pesticide use, investigating complaints involving agricultural pesticide misuse, and disciplining violators through a variety of civil and criminal penalties, which are determined by way of due process. In addition, Agriculture provides training to and testing of private and commercial agricultural pesticide applicators to ensure competency for certification (licensing). All of these activities take place within Agriculture’s Environmental Services Division. Similarly, as a regulatory agency with specific responsibilities for nonagricultural pest management regulation, statute provides the Office with licensing, inspection, complaint investigation, and disciplinary authority related to nonagricultural pest management. For example, the Office licenses nonagricultural pest management companies, individual applicators, and qualifying parties; conducts inspections to help ensure that licensees provide pest control services in a safe and effective manner; investigates public complaints against licensees; and disciplines violators of state and federal pesticide laws.

Additionally, both Agriculture and the Office have cooperative agreements with the U.S. Environmental Protection Agency (EPA) that “seek to protect human health and the environment by improving understanding of and compliance with pesticide laws and regulations.” Specifically, Agriculture’s agreement with the EPA requires it to conduct pesticide inspections and protect agricultural workers from harmful pesticide exposure. Similarly, the Office maintains a cooperative agreement with the EPA to conduct certain pest control inspections at schools, food establishments, and healthcare facilities. Agriculture and the Office both report to the same EPA regional office.

As previously mentioned, regulating structural pest management within an agricultural department is the structure used most frequently across the 50 states and the District of Columbia. Specifically, 39 states primarily regulate the structural pest management industry within their respective agricultural departments. These include 9 Western states, such as Colorado, Nevada, New Mexico, and Utah. Additionally, in September 2007, Texas terminated its Structural Pest Control Board and moved responsibility for regulating the structural pest control industry to its agricultural department.

Thirty-nine states primarily regulate the structural pest management industry within their agricultural departments.

- **Accountability**—Placing the Office within Agriculture offers greater accountability benefits than those that existed under the previous Structural Pest Control Commission. Based on a review of applicable literature, auditors concluded that this option promotes direct accountability because Agriculture’s director serves at the pleasure of the Governor and reports directly to her, and can be fired for cause.<sup>1</sup> This also helps to ensure consistency in applying the Governor’s agenda and policies. Conversely, according to a 1989 study by the Commission on California State Government Organization and Economy, a commission or board structure promotes less accountability because commissions/boards with several industry members become subject to undue industry influence and more than one person is in charge.<sup>2</sup>

This greater degree of accountability does not have to come at the expense of discontinuing a useful relationship with the industry. While direct accountability is important, appropriate industry input and expertise also help promote responsiveness. In this regard, Laws 2008, Ch. 309, §24, established the Pest Management Advisory Committee (Committee) to provide general guidance to the Office’s Acting Director. This Committee also provides a forum for industry and public input. For many of its functions, Agriculture works with similar advisory committees. Additionally, according to an agriculture official, Agriculture also conducts meetings with industry members to address questions/concerns. Auditors’ interviews with two agricultural industry representatives confirmed this.

- **Efficiency**—Placing the Office within Agriculture may offer the potential for some efficiency gains, although these gains are difficult to measure. According to a review of applicable literature, auditors concluded that most consolidation efforts are driven by the desire for gains in efficiencies, but expected cost savings may not materialize and may primarily result from savings by reducing overhead. For example, various administrative functions performed by both the Office and Agriculture, such as budgeting and personnel, could be consolidated if the Office were moved within Agriculture. According to an official from the Texas Department of Agriculture, which recently merged its structural pest control board within its Department of Agriculture, some efficiencies have been gained from combining the administrative functions, such as budgeting and human resources. In addition to sharing administrative functions, Agriculture offers the opportunity to potentially combine similar regulatory functions, such as licensing and inspections. For example, the Office conducts structural pesticide-use inspections and Agriculture conducts agricultural pesticide-use inspections.

Placing the Office within Agriculture may offer the potential for some efficiency gains.

• 1 See Bibliography, pages b-i through b-iv.  
 2 California Commission, 1989

- **Stakeholder views**—Auditors also sought the views of stakeholders within the structural pest management and agricultural industries. Among them, the response to this option was mixed, but generally favorable. Auditors interviewed five structural pest management industry representatives, and two stated that because Agriculture already regulates pesticide use, this option makes the most sense. Additionally, both of these industry representatives mentioned that Agriculture would be responsive to the industry’s needs. Although the other three industry representatives did not express a preference for this option, all three indicated that if the Office were placed in another agency, Agriculture would be their first choice. Additionally, according to a National Pest Management Association official, consolidating the Office within Agriculture, particularly Agriculture’s Environmental Service Division, would seem a natural fit because it makes sense to have all pesticide and pest control regulation under one agency for efficiency.

Views expressed by the two agricultural industry members that auditors interviewed were mixed. One supported the option, provided it was appropriately funded. The other agricultural industry member said he did not prefer this option because the Office is primarily focused on residential/housing issues while Agriculture focuses on crop/animal production issues. He said he was concerned that the significant size of the structural pest management industry would require an inordinate amount of Agriculture’s time and resources, which could shift Agriculture’s focus away from agricultural industries.

**Placing Office within Environmental Quality offers fewer potential benefits**—Placing the Office within Environmental Quality offers fewer benefits than placing it within Agriculture. Although both the Office’s and Environmental Quality’s missions and purposes focus on protecting the public health and environment, Environmental Quality’s mission does not include a specific focus on the safe use of pesticides. Additionally, Environmental Quality’s regulatory responsibilities and functions differ from the Office’s. Similar to placing the Office within Agriculture, this option would enhance accountability, but would offer the potential for only limited efficiency gains. According to auditors’ review of the Association of American Pesticide Control Officials’ Web site and other state information, five states and the District of Columbia regulate the structural pest management industry within an environmental control department. However, an environmental quality official indicated that the agency does not have the funding or expertise to regulate pest management. Auditors’ analysis showed:

- **Mission and purpose**—Both Environmental Quality and the Office focus on protecting the public health and environment, but unlike the Office and Agriculture, Environmental Quality’s mission does not include a specific focus on the safe use of pesticides. Specifically, Environmental Quality’s mission is “to protect and enhance public health and the environment in Arizona.” To help fulfill this mission, Environmental Quality’s responsibilities focus on protecting public health and the environment by establishing and ensuring

Five states and the District of Columbia regulate structural pest management within an environmental control department.

Unlike the Office and Agriculture, Environmental Quality does not regulate pest management.

compliance with standards of quality for Arizona's air, land, and water; advancing public policy; and encouraging participation through state-wide outreach. However, Environmental Quality's mission to protect the public health and environment is much broader than the Office's mission because it includes all pollutants.

- **Regulatory/functional alignment**—Unlike the Office and Agriculture, Environmental Quality does not regulate pest management and does not perform similar regulatory functions. Specifically, statutes require Environmental Quality to regulate activities related to environmental pollution and contamination. As such, Environmental Quality issues permits; tests soil, air, and groundwater; and investigates complaints related to pollution. For example, Environmental Quality issues permits to dry cleaners to use harmful chemicals in the cleaning process that could potentially cause pollution. Conversely, the Office and Agriculture license professionals, conduct inspections, and investigate complaints concerning the safe use of pesticides. However, in an effort to prevent groundwater contamination, statute requires Environmental Quality to regulate the use of agricultural pesticides that appear on its groundwater protection list. Additionally, soil and groundwater contamination due to pesticides would fall under its regulatory responsibilities.

This option, while used in some states, is less widespread than regulation under an agricultural agency. As previously mentioned, five states and the District of Columbia regulate the structural pest management industry within an environmental control department. For example, Connecticut has established a pesticide management program under its Department of Environmental Protection, Division of Materials and Waste Management.

- **Accountability**—Placing the Office within Environmental Quality appears to offer many of the same accountability benefits as consolidation within Agriculture when compared to the previous Structural Pest Control Commission. For example, Environmental Quality's Director serves at the pleasure of and reports directly to the Governor. Similar to the Office and Agriculture, Environmental Quality also works with advisory boards. Specifically, Environmental Quality works with community advisory boards that provide guidance and input on issues and concerns related to the cleanup of contaminated sites.
- **Efficiency**—Placing the Office within Environmental Quality offers the potential for only limited efficiency gains. For example, various administrative functions, such as budgeting and personnel, could be consolidated. However, because Environmental Quality does not license and regulate professionals, there is limited, if any, opportunity to consolidate regulatory functions.

- **Stakeholder views**—According to the structural pest management industry representatives auditors interviewed, Environmental Quality would not be a preferred placement option for the Office. All five industry representatives said that they would not prefer this option. One industry representative indicated that Environmental Quality would not be a good option because it has no history or expertise regulating the use of pesticides.

**Continuing affiliation with Administration offers few benefits**—Retaining the Office within Administration offers few benefits for regulating Arizona’s pest management industry. Specifically, Administration’s mission and purpose, responsibilities, and functions completely differ from the Office’s. Additionally, this option provides limited accountability benefits and limited opportunity for efficiency gains. Further, according to auditors’ review of the Association of American Pesticide Control Officials’ Web site and other state information, no other state regulates structural pest management within an administrative agency. An administration official also indicated that it would not be the optimal solution to keep the Office permanently within Administration because the Office’s mission is different from Administration’s mission, which is to provide centralized administrative service functions to all state agencies, boards, and commissions. Auditors’ analysis showed:

- **Mission and purpose**—Administration’s mission and purpose are completely different from those of the Office. Specifically, Administration’s mission is “to provide effective and efficient support services to enable government agencies, state employees, and the public to achieve their goals.” Administration responsibilities supporting its mission include accounting and payroll, state employee benefits and health insurance, human resources services, procurement, and providing various support services to state agencies and employees. Conversely, the Office’s mission and purpose focus on public health, and protection of property and the environment through the safe use of pesticides.
- **Regulatory/functional alignment**—Administration is not a regulatory agency, nor does it have any responsibilities for regulating the use of pesticides. Additionally, although Administration maintains various systems to support the administrative activities of state government, such as human resources, payroll, accounting, and procurement, it does not perform similar regulatory functions as the Office. Further, as previously indicated, no other state regulates structural pest management within an administrative agency.
- **Accountability**—Continuing the Office within Administration appears to offer limited accountability benefits. For example, similar to Agriculture and Environmental Quality, Administration’s Director serves at the pleasure of and reports directly to the Governor. However, the Director has human resources, procurement, and accounting expertise, not regulatory expertise, including no pest management regulation expertise. As a result, accountability is

No state other than Arizona regulates structural pest management within an administrative agency.

compromised because the Director may be limited in his/her ability to make informed decisions regarding pest management regulation without developing additional expertise. Finally, as previously mentioned, the Office has an advisory committee that promotes openness and provides a forum for industry and public input, and Administration has limited experience working with advisory committees.

- **Efficiency**—Continuing the Office within Administration offers limited efficiency gains. Various administrative functions, such as budgeting and personnel, could be consolidated with those same functions within Administration. However, other functions, such as licensing and inspections, could not be consolidated because Administration does not perform these activities.
- **Stakeholder views**—Structural pest management industry representatives that auditors interviewed indicated they would prefer not to maintain the Office's location within Administration. Specifically, all five industry representatives stated that they did not prefer this option. Four of these representatives indicated that Administration did not have the knowledge or expertise to effectively regulate the pest management industry. Conversely, the Office was more supportive of continuing the existing alignment. According to an office official, this is the most preferred option because, organized under Administration, the Office is an efficient and effective one-stop office for structural pest management needs. This official explained that, while housed in Administration, the Office has streamlined licensing procedures, increased inspection and complaint investigation productivity, and enhanced the public's and industry's ability to obtain various services and information through the Office's Web site, such as license renewal, complaint history information, and continuing education reporting.

Establishing a stand-alone agency offers fewest benefits and fails restructuring tests—Establishing the Office as a stand-alone regulatory agency offers the fewest benefits of the four options auditors evaluated for restructuring the Office. Although this option offers the opportunity to design an agency whose entire mission and purpose, function, and accountability would be centered on structural pest management within the State, auditors concluded that it does not meet tests identified by literature for creating a stand-alone agency.<sup>1</sup> For example, the Office does not perform a function so unique as to require a completely separate agency, does not need to act like a private sector company, does not act as an independent fiscal authority, and does not require a cabinet-level appointment. Additionally, according to auditors' review of the Association of American Pesticide Control Officials' Web site and other state information, no state regulates structural pest management through an independent, stand-alone agency.

No state regulates structural pest management through an independent, stand-alone agency.

1 California Commission, 1989; Mitchell, 1992

The primary test to establish a new agency is whether it performs a unique function and must carry out policy tasks that no other existing governmental agency performs.<sup>1</sup> For example, the Arizona Department of Corrections performs a function for the State that no other state agency performs or is authorized to perform, which is to incarcerate individuals that have been legally committed to the adult correctional system. The Office does not meet this test. As already shown above, its functions are very similar to Agriculture's responsibilities and overlaps in a more general way with Environmental Quality's responsibilities.

The Office does not meet various tests for establishing a stand-alone agency.

Another reason to create a new agency would be to promote independence from the rest of state government. This is required when a governmental agency must or should act more like a private sector company, such as the Arizona State Lottery, or when a fiscal function such as bonding authority is required, similar to the Arizona Water Infrastructure Finance Authority.<sup>2</sup> A stand-alone agency might also be needed when the Governor requires that the specific government function be directly accountable to the Governor through a cabinet-level appointment because of its size, magnitude, or policy importance, such as the Department of Economic Security. These criteria do not appear to apply to the Office.

Finally, a stand-alone agency would not offer the potential for increased efficiencies. Specifically, there would not be an opportunity to consolidate administrative functions, such as budgeting and personnel. Similarly, regulatory functions, such as licensing and complaint handling, would not be consolidated. In fact, the creation of a new stand-alone agency would possibly duplicate functions Agriculture already performs.

However, most of the structural pest management industry representatives that auditors interviewed preferred this option. Specifically, three of the five industry representatives said that they would prefer establishing the Office as a stand-alone agency. According to these representatives, Arizona's structural pest management industry is large, and this option offers the best opportunity to have the necessary staffing to fulfill the Office's mission of protecting the public and maintain current professional standards and technical expertise.

## Options for structuring the Office's functions within Agriculture

Auditors identified three options for structuring the Office's functions within Agriculture and recommend that the Legislature consider adopting one of the first two. The first option involves creating a new, comprehensive pesticides program within Agriculture that would regulate both structural and agricultural pesticides, an

<sup>1</sup> California Commission, 1989

<sup>2</sup> Mitchell, 1992; Uhrig, 2003

option used by most state agricultural departments that auditors reviewed during the audit. The second option involves combining the Office's functions with similar functions in existing agriculture programs; for example, combining the Office's licensing function with Agriculture's licensing function, an option preferred by agriculture officials. The third option involves moving the Office intact to Agriculture as a separate structural pest management program, an option preferred by the Office and most of the structural pest management industry officials who auditors interviewed, but one that may not provide as many benefits as the other options.<sup>1</sup>

### Merging all pesticide regulation activities into new, comprehensive pesticides program enhances effectiveness and efficiency—

Combining both the Office's and Agriculture's pesticide activities into a new, comprehensive pesticides program would enhance Agriculture's focus on pesticide regulation and public protection issues apart from other agricultural issues. Currently, Agriculture regulates pesticides in separate programs/areas within its Environmental Services Division (see textbox). However, under a new, comprehensive pesticides program, all of Agriculture's current pesticide activities, including pesticide product registrations, licensing, use inspections, and complaint investigations, would be transferred to and conducted in a new pesticides program, along with all of the nonagricultural pesticide responsibilities the Office currently conducts. This option offers the potential for increased effectiveness and some efficiency gains, and among the ten states that auditors reviewed that regulate pest management within an agricultural department, it is the most common approach. Officials of these states indicated that this approach has a number of benefits, but stakeholders had mixed views about it. Specifically:

#### How does Agriculture regulate pesticides?

Agriculture registers pesticides and regulates agricultural pesticide use in the following programs/areas within its Environmental Services Division (Division):

- **Pesticide Compliance and Worker Safety**—Within this program, division inspectors conduct agricultural pesticide-use, records, storage, and worker safety inspections; and investigate complaints.
- **Nonfood Quality Assurance**—The same division inspectors who work in the pesticide compliance and worker safety program also work in this program to perform feed, fertilizer, pesticide, and seed label inspections, as well as sample these materials, to ensure product contents match the product label and investigate complaints concerning product contents.
- **Licensing**—In its licensing area, the Division performs most of Agriculture's licensing activities, including licensing agricultural pesticide applicators and milk haulers, and registering pesticides and livestock brands.

Source: Auditor General staff summary of information provided by an agriculture official.

A new, comprehensive pesticides program would focus attention on pesticide issues apart from the other issues Agriculture addresses.

- **Effectiveness**—Based on a review of two comprehensive studies on improving government through enhanced effectiveness and efficiency, auditors concluded that a program focused solely on pest management better promotes protection of the public and the environment from potential pesticide misuse.<sup>2</sup> Specifically, a new, comprehensive pesticides program would focus attention on pesticide issues apart from the other issues

<sup>1</sup> Under any of these three options, administrative functions, such as budgeting and personnel, could be transferred to central units within Agriculture. The options more specifically address pesticide-related functions.

<sup>2</sup> Bozeman & Crow, 1985; Uhrig, 2003

Agriculture addresses, and it would promote better alignment with the mission and purpose of protecting the public health and the environment from pesticide misuse. The result would be a program with one mission focused solely on the protection of the public through safe pesticide use, rather than separate programs/areas that focus on multiple agricultural products, including pesticides. Additionally, a new program solely focusing on pesticide issues might allow Agriculture to better respond to policy developments and changes regarding the regulation of pest management.

- **Efficiency**—Creating a new, comprehensive pesticides program could provide some efficiency gains. In addition to combining administrative functions, these efficiencies could include inspectors who are able to perform both agricultural and structural pest inspections and complaint investigations.<sup>1</sup> This could promote greater staff knowledge and expertise in pest management regulation, thus potentially allowing staff to more efficiently perform pesticide use inspections and complaint investigations. However, unless all licensing activities are maintained within Agriculture’s licensing area, this option could result in duplicative licensing activities because pesticide registration and licensing activities would be separated from Agriculture’s other registration and licensing activities, which are mostly located in one area.
- **Organization in other states**—Auditors’ interviews with officials in other states indicated that this option is frequently used and offers numerous benefits. Specifically, auditors interviewed officials from ten states that regulate pest management within an agricultural department. Eight of these ten states have a comprehensive pesticides program. Officials from five of these states reported that operating a comprehensive program for pest management regulation offers benefits such as increased coordination of agricultural and nonagricultural pesticide regulatory activities and services, consistency in enforcing all pesticide laws, expertise in pesticide regulation, and “one-stop shopping” for all pesticide needs in the state. However, officials from six of the eight states stated that there might be a continued need for inspectors who specialize in structural pest management. For example, a Colorado official stated that although its inspection functions are merged, the necessity for its inspectors to know multiple different industries actually slows the inspection process, and some structural pest inspections need specialization.
- **Stakeholder views**—Stakeholders provided varying opinions about this option. Agriculture officials reported that they did not prefer this method for merging the Office because the benefits of combining pesticide functions with nonpesticide functions would be lost. All five structural pest management industry representatives auditors interviewed also said that they did not prefer this option, with three of the representatives preferring the option of keeping the Office intact within Agriculture. However, all five industry representatives agreed that this option could work, with three commenting it could work if the

Creating a new, comprehensive pesticides program could provide some efficiency gains.

<sup>1</sup> According to A.R.S. §§32-2304(D)(8) and 32-2312(C), office inspectors must be licensed applicators, which requires that they pass an examination. Additionally, office inspectors must attend and complete an investigative training class.

comprehensive pesticides program was able to retain some inspectors that specialized in structural pest issues.

**Integrating Office's functions into Agriculture's existing structure enhances efficiency more than effectiveness**—Integrating the Office's pesticide regulatory activities into the Environmental Services Division's (Division) pesticide and nonpesticide functions may promote efficiencies, but may not create as great a focus on pesticide regulation and public protection as would creating a new, comprehensive pesticides program. This option would place the Office's functions of licensing, inspection, and complaint investigation into the programs/areas shown in the textbox on page 16. For example, this option would combine the Office's nonagricultural pesticide licensing functions within the Division's existing licensing area, which issues most agricultural licenses, certificates, and registrations required by statute. This option might require cross-training staff so they can perform several agricultural and nonagricultural functions, including pest management regulation. This type of structure exists in two of the ten states that auditors reviewed that regulate pest management within an agricultural department and has support among some stakeholders. Specifically:

- **Effectiveness**—Based on a review of organizational effectiveness studies, auditors concluded that this option is less likely to promote regulatory effectiveness than the previous option.<sup>1</sup> Specifically, adding the regulation of the structural pest industry to the Division's programs/areas that regulate pesticide and nonpesticide activities might decrease Agriculture's ability to adequately focus on each of these activities. Additionally, it might dilute agency and staff knowledge and expertise. This option could not promote regulatory effectiveness without sufficient resources and adequate coordination between programs.
- **Efficiency**—This option offers opportunities to promote efficiency because staff can be cross-trained to perform many kinds of regulatory activities. For example, the Division has already cross-trained its staff to perform feed, seed, fertilizer, and agricultural pesticide inspections and complaint investigations. The Division could further train its staff and office staff to perform both agricultural and structural pest inspections and complaint investigations. However, this increased cross-training could lead to a loss of expertise. Specifically, staff would need the knowledge and skills to regulate several different types of products and services, which could potentially diminish their expertise in any given area, as opposed to the knowledge and skills that would be needed to regulate in a specific area, such as pesticide use. Also, according to a study on organization theory and effectiveness, considerable coordination and communication is required to achieve these gains.<sup>2</sup>

Integrating the Office's functions into Agriculture's existing functions offers opportunities to promote efficiency through staff cross-training.

1 Bozeman & Crow, 1985; Scharpf, 1977; Thompson et al, 1982

2 Bozeman & Crow, 1985

- **Organization in other states**—As previously mentioned, two of the ten states auditors reviewed are organized in a similar manner. For example, a Texas official reported that all of its agricultural products, such as meat, eggs, feed, fertilizer, and pesticides, are licensed and inspected by the same staff, and the state’s agricultural department does not have a comprehensive pesticides program. According to officials from these two states, consolidating all regulatory functions (including pest management) under one state agency or program creates a “one-stop shop,” which promotes efficiencies in performing regulatory activities. However, according to a Texas official, although Texas is trying to merge its structural pest control board functions with existing agricultural department functions, it has struggled to do so since September 2007. Specifically, licensing functions have been merged, but inspections and complaint investigations have not been consolidated because of the structural pest industry’s desire to maintain its individual identity and the need for structural pest specialization.
- **Stakeholder views**—Similar to the first option, stakeholder views varied. According to agriculture officials, this option presents the most preferred method of integrating the Office into Agriculture. Specifically, consolidating similar functions not only increases efficiencies for the State by reducing duplicative functions, but also increases efficiencies for the public and industries served. For example, according to agriculture officials, properly trained inspectors should be able to perform several types of inspections in one trip, especially when traveling to outlying areas of the State, as opposed to sending different inspectors to perform these inspections.

Agriculture officials prefer the option of integrating functions.

Structural pest management industry representatives who auditors interviewed were divided about this option. Two of the five representatives said they preferred this option, indicating that efficiencies could be gained by consolidating duplicative functions. However, the other three representatives indicated that this option would be the least preferred because it would potentially dilute both Agriculture’s and Office staff’s expertise and knowledge, and the responsiveness to structural pest industry needs and concerns.

**Keeping the Office intact within Agriculture may promote effectiveness but does little for efficiency**—Under this option, the Office’s administrative functions could be consolidated with Agriculture’s administrative functions, but its structural pest regulatory functions would remain intact and separate from any of Agriculture’s regulatory functions. However, this option would create another pest management program in an agency that already regulates pesticides in three programs/areas. Auditors’ interviews with officials from ten states that regulate pest management within an agricultural agency found that none of these states have organized their structural pest management regulatory responsibilities in a separate program within their agricultural agencies. Although this option may promote effectiveness, it will not promote greater efficiencies than the other options. Specifically:

Keeping the Office intact within Agriculture would allow for a specific focus on structural pest regulation, but may not be as effective as a coordinated effort.

- **Effectiveness**—Maintaining structural pest regulation separate from any of Agriculture’s other regulatory functions, including agricultural pesticide regulatory functions, would allow for a continued, specific focus on structural pest regulation. However, based on a review of organizational effectiveness studies, auditors concluded that maintaining separate programs that perform similar functions to regulate the pest management industry does not promote the policy goals of public and environmental protection as effectively as a coordinated effort.<sup>1</sup> For example, structural pest regulation goals, which are to protect the public and environment from the unsafe use of pesticides, may not be coordinated with the goals of Agriculture’s other programs/areas that license, register, and regulate pesticides. As such, separate programs risk being hindered by poor communication and lack of intra-agency coordination, both of which are needed to effectively achieve policy goals. A separate program focused on structural pest regulation apart from agricultural pest regulation could also increase the likelihood of competition for agency resources, depending on the funding mechanisms used. However, this option would readily allow Agriculture to retain the Office’s technical expertise.
- **Efficiency**—This option would provide few efficiency gains because only administrative functions could be consolidated. Regulatory functions would not be consolidated, which would preclude any benefits that could be gained through cross-training staff and combining other resources.
- **Organization in other states**—None of the ten states that auditors reviewed that regulate pest management within an agricultural agency had a freestanding structural pest management program within their agriculture department.
- **Stakeholder views**—Office and agriculture officials expressed differing opinions regarding this option. An office official indicated that if the Office were consolidated within Agriculture, this would be the preferred option for doing so because of established communication and rapport links with stakeholders, ongoing continuity, specialized expertise, and established intra-divisional protocols for efficiency. However, although agriculture officials agreed that there may be a few benefits for merging in this way, forgoing the potential for operational efficiencies and the negative organizational impacts of a separate program would lessen the option’s value. For example, according to agriculture officials, it would not make sense to consolidate the Office within Agriculture and not realize operational efficiencies and cost savings by consolidating similar functions. Additionally, agriculture officials expressed concern regarding organizational difficulties, including competition for limited resources.

Finally, three of the five structural pest management industry representatives auditors interviewed stated that this option would be their first choice because

<sup>1</sup> Bozeman & Crow, 1985; Scharpf, 1977; Thompson et al, 1982.

it would promote continued expertise in structural pest management. Other reasons mentioned for preferring this option were that maintaining a focus on structural pest management would help to protect the public, allow the industry a voice in how it is being regulated, and allow the industry to retain its autonomy.

## Additional factors to consider when restructuring the Office

In implementing the restructured Office, several additional factors should be considered. These factors include funding sources, potential for cost savings, transition planning, and continuation of the Pest Management Advisory Committee. Specifically:

- **Legislature should review and consider funding sources**—The Legislature would likely need to review the Office’s funding mechanisms and determine whether statutory changes are necessary. The Office is primarily funded by industry through licensing fees and charges for services, and it also receives some federal monies. A.R.S. §32-2305 establishes the Pest Management Fund (Fund) and directs the Office to deposit 90 percent of all fees it collects into the Fund and remit 10 percent of all fees and all monies collected from civil penalties to the State General Fund (90/10 funding). If the Office were consolidated within Agriculture, this funding mechanism would likely need to be reviewed to determine if changes are necessary. Specifically, Agriculture is funded through State General Fund monies, various licensing and inspection fees, and federal monies. However, some of Agriculture’s programs are self-funded, such as its egg inspection and nonfood product quality assurance programs, which includes feed, seed, fertilizer, and agricultural pesticides. Thus, there is precedent within Agriculture for continuing the self-funding provided by the structural pest management industry.

If the Office is placed within Agriculture, the Legislature should consider whether Agriculture will receive the 90 percent of fees that the Office currently receives, and if it does, whether that funding will be restricted for structural pest regulation. According to a Joint Legislative Budget Committee analyst, it would be possible to continue the Office’s funding mechanism if it were consolidated within an agency funded by the State General Fund. Additionally, the option the Legislature chooses for structuring the Office’s functions within Agriculture may help determine if the Office’s 90/10 funding is maintained. For example, it may be easier to retain the 90/10 funding mechanism if the Office is kept intact within Agriculture.

The Office’s 90/10 funding mechanism would likely need to be reviewed if the Office were consolidated within Agriculture.

The Legislature could consider various options for physically combining the Office within Agriculture.

- **Potential for cost savings may not be realized immediately**—Although placing the Office within Agriculture may yield cost savings/efficiencies, physically transitioning staff and equipment may not result in immediate savings and could require some investment of state monies. Specifically, the Legislature could consider various options for physically combining the Office within Agriculture. These options include moving office staff and equipment to Agriculture’s building, maintaining office staff and equipment at their current location, or moving Agriculture’s pest management staff to the Office’s building. According to agriculture officials, Agriculture has sufficient unoccupied space in its building to accommodate office staff and equipment, including appropriate space for the Office’s computer equipment. Although maintaining office staff and equipment at their current location and possibly moving Agriculture’s pest management staff to this location would require either no initial investment or a nominal investment of state monies to undertake, it will not offer the potential for future rent cost savings. However, if the Legislature decides to move office staff and equipment to Agriculture’s building, this move would require an initial investment of state monies, but could result in some savings in the future. Specifically:
  - The State will incur costs to physically move the Office to a new location. According to an administration official, the cost of moving the Office’s staff and equipment to the state capitol mall would include the physical move, phones, and data. The physical move is approximately \$250 per workstation and is dependent upon the type of furnishings, fixtures, and equipment to be relocated. The Office estimated that it would need to relocate 30 work stations at a total cost of \$7,500. The administration official also stated that there would be additional costs to re-establish the Office’s telephone and data service connections.
  - The State may not immediately save money through a reduction in rent charges if the Office is physically moved to a new location at this time. The Office currently pays rent of \$197,900 annually and occupies space in a state-owned building in Scottsdale. According to an administration official, if the Office is moved to Agriculture, it would continue to incur rental costs for the Scottsdale space until the State finds another tenant. As of November 30, 2009, Administration reported that it did not have another tenant available for that space. However, when Administration identifies another tenant for the Scottsdale space, monies that the Office pays for rent could then be used to help offset Agriculture’s rent costs.
- **Planning needed to ensure smooth transition**—If the Legislature places the Office within Agriculture, several issues will need to be considered to help ensure a smooth transition. Specifically:
  - First, Agriculture should work with various stakeholders to develop a plan for best transitioning the Office’s various functions in line with legislative

decisions. For example, if the Legislature decides to consolidate the Office's and Agriculture's administrative functions, this could possibly be done immediately, but if the Legislature decides to consolidate the Office's and Agriculture's regulatory functions, this may require additional time and planning to properly consolidate. Also, agriculture officials suggested that if the Office's licensing functions were to be consolidated with Agriculture's, this could be done more quickly than its inspection and complaint investigation activities. Finally, both office and agriculture officials suggested involving various stakeholders in transition planning to help ensure the continuing protection of the public and service to the pest management industry.

- Second, Agriculture will need to consider various personnel issues. For example, the agency will need to review its combined workload to determine how many staff are needed to effectively regulate the agricultural and nonagricultural pest management industries and enforce pesticide laws. Agriculture should ensure that the most qualified staff are retained and that any cross-training needs are addressed. Additionally, as previously mentioned, statute requires office inspectors to be licensed applicators and complete investigative training, while statute does not require agriculture inspectors to meet these requirements. Position classification and minor salary differences also exist between some of the Office's and Agriculture's Environmental Services Division inspectors. As a result, any position qualification requirements, salary, and position classification differences should be addressed.
- Third, Agriculture will need to coordinate information technology (IT) resources. Specifically, the Office and Agriculture have separate IT systems and Web sites. Agriculture should review existing IT resources and needs to help determine what systems can be integrated, identify a timeline and determine the costs for doing so, and determine which systems and/or resources should be maintained separately.
- **Legislature should review need for Pest Management Advisory Committee—**  
The Legislature should consider whether it wants to continue the Pest Management Advisory Committee (Committee). Although Laws 2008, Ch. 309, §24, established the Committee to provide general guidance to the Office's Acting Director, there may be value in continuing the Committee if the Office is consolidated within Agriculture to continue to provide a forum for stakeholder input on pesticide issues, including structural pest management issues. Alternatively, the Legislature could determine that the Department of Agriculture's Advisory Council (Council), established by A.R.S. §3-104, could meet this need. According to statute, the Council reviews state agricultural policy, assists in formulating Agriculture's administrative rules and proposed budget allocations, and may conduct periodic analysis of Agriculture's policies. However, the Council consists of five agricultural industry members, which may limit their ability to provide advice on structural pest regulation.

Agriculture will need to coordinate IT resources.

If the Legislature continues the Committee or revises the Council's responsibilities to include structural pest management issues, the Legislature should consider increasing the number of members on either the Committee or Council. Laws 2008, Ch. 309, §24, requires the Committee to consist of seven members: three public members, three industry members, and one entomologist.<sup>1</sup> Literature suggests that several benefits can be attained by increasing the membership of the advisory committee to better represent varied interests.<sup>2</sup> These benefits include increased responsiveness to various stakeholders and greater accountability to the public, as well as a broadened perspective to consider multiple viewpoints and inform decisions. Specifically, increased accountability and a broadened perspective could be attained by including additional representation from other government agencies involved with pesticides, the environment, and public health, as well as adding stakeholders from the general public and technical experts from pest control associations.

## Recommendations:

Options for placement of the Office of Pest Management:

- 1.1. The Legislature should consider placing the Office within the Department of Agriculture. This offers the best option for continuing the regulation of the pest management industry because the missions and purposes of the Office and Agriculture are closely aligned, both agencies have responsibilities for regulating pest management, and placing the Office within Agriculture would enhance accountability. Additionally, this option offers the potential for some efficiency gains.
- 1.2. If the Legislature does not place the Office within the Agriculture, other options for its consideration include:
  - a. Placing the Office within the Department of Environmental Quality. This option offers fewer benefits than placing it within Agriculture. Although Environmental Quality's mission and purpose focus on protecting the public health and environment, its mission does not include a specific focus on the safe use of pesticides. Its regulatory responsibilities and functions also differ from the Office's. This option would enhance accountability, but it would offer the potential for only limited efficiency gains.

1 According to an office official, as of December 2009, the Pest Management Advisory Committee membership comprises four industry members, one public member, one entomologist, and one vacancy.

2 Mitchell, 1997

- b. Retaining the Office within the Department of Administration. Although Administration's mission, regulatory responsibilities, and functions differ from the Office's, the potential would exist for limited efficiency gains through the consolidation of administrative functions.
- c. Creating the Office as a stand-alone agency. Establishing the Office as a stand-alone regulatory agency offers the opportunity to design an agency whose entire mission and purpose, function, and accountability would be centered on structural pest management within the State. However, the functions carried out by the Office do not meet several tests for creating a stand-alone agency, and this option does not offer the potential of increased efficiencies for the State.

Options for structuring the Office of Pest Management's functions within the Department of Agriculture:

- 1.3. If the Legislature places the Office within Agriculture, it should consider merging the Office's and Agriculture's administrative functions, such as budgeting and personnel, and should consider adopting one of the following two options for merging the Office's regulatory functions:
  - a. The first option would involve creating a new, comprehensive pesticide regulatory program within Agriculture by combining the Office's licensing, inspections, and complaint investigations functions with Agriculture's pesticide and pest management activities.
  - b. The second option would involve merging the Office's various regulatory functions, such as licensing, inspections, and complaint investigations, with Agriculture's similar regulatory functions, which are spread among three different programs/areas.
- 1.4. If the Legislature does not prefer either of these options, a third option for structuring the Office with Agriculture would involve retaining the Office's regulatory functions and responsibilities intact in a separate program within Agriculture.

Other considerations in placing and structuring the Office of Pest Management:

- 1.5. If the Office is placed within the Department of Agriculture, the Legislature should consider reviewing the Office's funding mechanisms and determine whether statutory changes are necessary, including whether Agriculture will receive the 90 percent of funding that the Office receives, and if it does, whether that funding will be restricted for structural pest regulation.

- 1.6. If the Office is placed within Agriculture, the Legislature should consider various options for physically combining the two entities. These options include moving office staff and equipment to Agriculture's building, maintaining office staff and equipment at their current location, or moving Agriculture's pest management staff to the Office's building.
- 1.7. If the Office is placed within Agriculture, Agriculture should work with stakeholders to develop a plan for transitioning the Office's various functions to the new agency, addressing personnel issues, and coordinating IT resources and needs.
- 1.8. The Legislature should consider whether it wants to continue the Pest Management Advisory Committee or have the existing Department of Agriculture Advisory Council assume this committee's responsibilities.
- 1.9. If the Legislature continues the Committee or revises the Council's responsibilities to include structural pest management issues, the Legislature should consider increasing the number of members on either the Committee or Council to represent varied interests such as other government agencies involved with pesticides, the environment, and public health, as well as stakeholders from the general public and technical experts from pest control associations.

# APPENDIX A

---

## Methodology

Auditors used various methods to develop recommendations for reorganizing the Office of Pest Management (Office). These methods included interviewing office staff, Pest Management Advisory Committee members, and representatives of various structural pest management and agricultural professional associations, and reviewing statutes and rules, and the Arizona Master List of State Government Programs for fiscal years 2008-2010.

In addition, the following specific methods were used:

- To develop options for the Office's reorganization, auditors reviewed the Association of American Pesticide Control Officials' Web site and other state information to determine under which agencies the 50 states and the District of Columbia regulate structural pest management.<sup>1</sup> Additionally, auditors interviewed state pest management regulatory officials from a judgmental sample of 16 of these states.<sup>2</sup> Auditors also reviewed various literature and several studies regarding factors to consider in determining appropriate government organization (see Appendix B, pages b-i through b-iv, for more information about literature reviewed). Further, auditors interviewed a National Pest Management Association official, and officials from the Arizona Departments of Administration, Agriculture, and Environmental Quality, as well as an analyst from the Joint Legislative Budget Committee. Finally, auditors reviewed applicable U.S. Environmental Protection Agency contracts and workplans; various agency Web sites; salary information provided by the Office and Agriculture; and gathered and analyzed information about the Office from the fiscal year 2010 *State of Arizona Appropriations Report*.

<sup>1</sup> Based on a review of this Web site and other state information, auditors determined that 39 states primarily regulate structural pest management within their respective agricultural departments, including 13 states that regulate structural pest management under an agricultural department such as the Department of Agriculture and Consumer Services, the Department of Agriculture and Land Stewardship, or the Department of Agriculture and Forestry; and one state that conducts inspections and investigates complaints through its agricultural department, but licenses applicators and businesses through a university extension services program. Additionally, 5 states and the District of Columbia regulate pest management within their respective environmental control departments. The remaining 6 states use one of the following options: a university, state chemist's office, a public health department, a consumer affairs department, or an administration department (Arizona).

<sup>2</sup> Auditors interviewed officials from a judgmental sample of 16 states representing six of the seven different methods identified for regulating structural pest management. These states were Arkansas, California, Colorado, Connecticut, Florida, Hawaii, Illinois, Indiana, Maryland, Nebraska, Nevada, New Mexico, South Carolina, Texas, Virginia, and Washington. Arizona's structural pest management regulatory program, which is housed within the Department of Administration, represents the seventh method identified for regulating structural pest management.

- To develop information for the Introduction and Background, auditors reviewed the Office of the Auditor General's 2007 performance audit and sunset review of the Structural Pest Control Commission (see Report No. 07-05); gathered and analyzed unaudited information about the Office from the *State of Arizona Appropriations Report* for fiscal year 2010, Arizona Financial Information System (AFIS) for fiscal years 2008 and 2009, and the Office's fiscal year 2010 estimated revenues and expenditures; and reviewed office-provided documents pertaining to licenses issued, complaint investigations, inspections, and staff positions.

# APPENDIX B

---

## Bibliography

- Association of Structural Pest Control Regulatory Officials. (2009). *ASPCRO directory*. Retrieved December 23, 2009, from [http://www.aspcro.org/htm/ASPCRO\\_directory2009.pdf](http://www.aspcro.org/htm/ASPCRO_directory2009.pdf)
- Bozeman, B., & Crow, M. (1985). Organization theory and state government structure: Are there lessons worth learning? [Electronic version]. *State Government*, 58(4), 144-151.
- Cameron, K. (1980). Critical questions in assessing organizational effectiveness [Electronic version]. *Organizational Dynamics*, 66-80.
- Commission on California State Government Organization and Economy. (1989). *Boards and commissions: California's hidden government*. Sacramento, CA: Author. Retrieved October 28, 2009, from <http://www.lhc.ca.gov/studies/097/report97.PDF>
- Commission on California State Government Organization and Economy. (1979). *Comments and recommendations regarding professional and business licensing*. Sacramento, CA: Author. Retrieved October 28, 2009, from <http://www.lhc.ca.gov/studies/035/report35.PDF>
- Conant, J. (1985). State reorganization: A new model? [Electronic version]. *State Government*, 58(4), 130-138.
- Coopers & Lybrand. (1992). *State long-term improved management: Project Slim Final Report*. Phoenix, AZ: Authors.
- Corkery, J., O Nuallain, C., & Wettenhall, R. (1997). Between government and management: Relationship issues for public enterprise boards: Guest editors introduction. *Asian Journal of Public Administration*, 19(1), 3-23. Retrieved October 14, 2009, from <http://sunzi1.lib.hku.hk/hkjo/view/50/5000125.pdf>

- Corkery, J., O Nuallain, C., & Wettenhall, R. (Eds.). (1994). *Public enterprise boards: What they are and what they do*. Hong Kong: International Association of Schools and Institutes of Administration.
- DesPres, A. (2008). *Reorganization of state executive branch agencies: A summary of findings*. Retrieved November 25, 2008, from [http://www.maine.gov/spo/specialprojects/naturalresourcesagency/docs/2008-07-07\\_reorganizationofstateexecutiveagencies\\_despres.pdf](http://www.maine.gov/spo/specialprojects/naturalresourcesagency/docs/2008-07-07_reorganizationofstateexecutiveagencies_despres.pdf)
- Macey, J. R. (1992). Organizational design and political control of administrative agencies. *The Journal of Law, Economics, & Organization*, 8(1), 93-110. Retrieved December 15, 2009, from the HeinOnline database.
- Mitchell, J. (1997). Representation in government boards and commissions. *Public Administration Review*, 57(2), 160-167. Retrieved November 11, 2009, from the ABI/Inform Global database.
- Mitchell, J. (Ed). (1992). *Public authorities and public policy: The business of government*. New York: Greenwood Press.
- Moe, T. M. (1995). The politics of structural choice: Toward a theory of public bureaucracy. In O. E. Williamson (Ed.), *Organizational theory: From Chester Barnard to the present and beyond* (pp. 116-153). New York: Oxford University Press.
- Moe, T. M. (1989). The politics of bureaucratic structure. In J. E. Chubb & P. E. Peterson (Eds.), *Can the government govern?* (pp. 267-287). Washington, DC: The Brookings Institution.
- Moe, T. M. (1984). The new economics of organization. *American Journal of Political Science*, 28(4), 739-777.
- Nielsen, V. L. (2006). Are regulators responsive? [Electronic version]. *Law & Policy*, 28(3), 395-416.
- New York State Commission on Local Government Efficiency & Competitiveness. (2008). *21st Century Local Government*. Retrieved October 22, 2009, from <http://www.nyslocalgov.org>
- O'Connell, L., Yusuf, J. E., & Hackbart, M. (2009). Transportation commissions as accountability structures: A review of their statutory roles and other attributes. *The American Review of Public Administration*, 39, 409-424. doi: 10.1177/0275074008321892

- Peltzman, S. (1976). Toward a more general theory of regulation. *The Journal of Law and Economics*, 19, 211-240. Retrieved October 26, 2009 from the HeinOnline database.
- Roederer, D., & Shimberg, B. (1980). *Occupational licensing: Centralizing state licensure functions*. Lexington, KY: The Council of State Governments.
- Scharpf, F. W. (1977). Does organization matter? Task structure and interaction in the ministerial bureaucracy. *Organization and Administrative Sciences*, 8, 149-167.
- Schneider, S. K. (1987). Influences on state professional licensure policy [Electronic version]. *Public Administration Review*, 479-484.
- Scutari, C. (2003, March 9). Paging Dr. Efficiency: I am the thriftiest guy in state government. *Arizona Republic*, p. B9.
- Seidman, H. (1954). The government corporation: Organization and controls [Electronic version]. *Public Administrative Review*, 14(3), 183-192.
- Selznick, P. (1943). An approach to a theory of bureaucracy [Electronic version]. *American Sociological Review*, 8(1), 47-54.
- Simon, H. A. (1946). The proverbs of administration [Electronic version]. *Public Administration Review*, 6(1), 53-67.
- Singh, S. D. (2004). Mergers often a bad deal for states. *Crain's Chicago Business*, 27(23), 4. Retrieved October 22, 2009, from the ABI/Inform Global database.
- State of Washington, Natural Resources Subcabinet. (2009). *Ideas to improve management of Washington's natural resources*. Retrieved October 23, 2009 from [http://www.governor.wa.gov/priorities/reform/natural\\_resources/nr\\_briefing\\_document.pdf](http://www.governor.wa.gov/priorities/reform/natural_resources/nr_briefing_document.pdf)
- Thompson, W. A., Vertinsky, I., Kira, D., & Scharpf, F. W. (1982). Performance of a regulatory agency as a function of its structure and client environment: A simulation study [Electronic version]. *Management Science*, 28(1), 57-72.
- Uhrig, J. (2003). Review of the corporate governance of statutory authorities and office holders. Retrieved December 4, 2009, from <http://www.finance.gov.au/financial-framework/governance/docs/uhrig-report.pdf>
- Van De Ven, A. H. (1976). On the nature, formation, and maintenance of relations among organizations. *Academy of Management Review*, 1(4), 24-36. Retrieved December 15, 2009, from the Business Source Complete database.

Wettenhall, R. (2006). *The Australian public sector post Uhrig: Where will this path lead?* Retrieved November 11, 2009, from [http://www.canberra.edu.au/corpgov-aps/whatsnew/CONFERENCE\\_March2006/Conf2006\\_Papers\\_PPts/Wettenhall\\_R\\_Conf2006\\_Paper.pdf](http://www.canberra.edu.au/corpgov-aps/whatsnew/CONFERENCE_March2006/Conf2006_Papers_PPts/Wettenhall_R_Conf2006_Paper.pdf)

Wettenhall, R. (2003). Exploring types of public sector organizations: Past exercises and current issues. *Public Organization Review: A Global Journal*, 3, 219-245. Retrieved October 19, 2009, from the ABI/Inform Global database.

Wilson, J. Q. (1989). *Bureaucracy: What government agencies do and why they do it*. New York: Basic Books.

# AGENCY RESPONSE



ARIZONA

**Janice K. Brewer**  
Governor

## **Office of Pest Management**

**Ellis M. Jones**  
Acting Director

9535 E. Doubletree Ranch Road  
Scottsdale, Arizona 85258-5514  
(602) 255-3664 - (602) 255-1281 fax  
<http://www.sb.state.az.us>

December 29, 2009

The Honorable Debbie Davenport  
Auditor General, State of Arizona  
2910 North 44<sup>th</sup> Street, suite 410  
Phoenix, Arizona 85018

Dear Madame Auditor General:

The attached document is the Office of Pest Management's response to the performance audit conducted by your office.

Please contact me if further information or clarification is needed.

Sincerely,

Ellis M. Jones, M.A.  
Acting Director

OFFICE OF PEST MANAGEMENT  
RESPONSE TO AUDITOR GENERAL'S REPORT

This is the response to the Auditor General's performance audit (Report) of the Office of Pest Management (Office) pursuant to Laws 2008, Ch. 309, §23 and Arizona Revised Statutes (A.R.S.) §41-1279.03.

The Office supports the Auditor General's recommendation of an operational move to the Department of Agriculture (DA) and merging all pesticide-related activities. However, the Office is concerned with some of the components contained within the recommendation.

The Report suggests a potential for some efficiency gains through a consolidation of similar functions, which would reduce overhead through reducing personnel and a physical move from the Office's present location and rent payments. The office is a self-sustaining 90/10 operation, capable of meeting all financial obligations, while contributing to the state's general fund. It is difficult to visualize any savings or increased efficiencies since the Office pays its own way.

### **Compliance and Enforcement**

The Report concludes that cross-training inspectors to conduct both agricultural and structural pest management inspections would reduce the need for the number of inspectors currently on-board.

On the surface, this would appear to be accurate through an economy of scales. Conversely, the Office's inspectors/investigators are *specialists* and required by statute to be licensed in order to be employed as inspectors. Training the inspectors to be *generalists* will result in a loss of efficiency because of divided attention and constant adjustment to the agricultural, structural situation. An inspector could conduct a structural pest management inspection, shift paradigms, and go across town to conduct an agricultural inspection, and shift paradigms again to conduct an investigation. The laws of diminishing returns apply here. Additionally, the Office conducts inspections as well as investigations. After reviewing data from the previous three years and supervisor/management observations, the

Office concluded that it was more efficient to separate the inspection function from the investigation function.

The efficiency in **inspections** increased an average of 180% for inspections. During 2007, the Office performed 3,726 inspections, accomplished by 14 compliance / enforcement FTEs; with 220 working days in a year, this resulted in 1.20 inspections a day.

However, during FY2009, the Office performed 6,382 inspections, accomplished by 10 compliance / enforcement FTEs; with 220 working days in a year, this resulted in 2.90 inspections a day, which is a 140% increase from FY2007.

On July 1, 2009, the Office reorganized the compliance / enforcement team into 5 dedicated *inspectors* and 5 dedicated *investigators*.

From July 2009, to December 29, 2009, the Office performed 2022 inspections with the 5 *dedicated* inspectors; counting 6 months (or 120 working days; July to Dec) resulted in 3.37 inspections per inspector per day. The average inspection takes approximately one to two hours.

The efficiency in **investigations** increased an average of 400% for investigations. During 2007, the Office investigated 198 investigations with 14 compliance / enforcement staff members. This resulted in 1.17 investigations per inspector per month).

Still, during the 2009 Fiscal Year, the Office completed 273 investigations, accomplished by 10 compliance / enforcement FTEs; with 12 calendar months, this resulted in 2.27 investigations, per inspector, per month, which was a 94% increase in productivity from FY2007.

However, from July 2009 to December 29, 2009, utilizing 5 *dedicated* investigators, the Office has already conducted 188 investigations. Counting 6 months (or 120 working days; July to Dec) resulted in 6.26 investigations per investigator per month.

The average inquiry investigation takes 2 months to complete. The average complaint investigation takes 6 months to complete.

The inspectors/investigators also serve as instructors for the in-house training program and guest instructors when requested by the industry. This division is also responsible for the legal functions of the Office related to

hearings, notices, settlement conferences, civil penalties, and liaison with the Attorney General's office.

## **Finance and Administration**

Consolidating the budgeting and human resources (HR) functions of DA and the Office as recommended by the Report may result in a slight savings. The HR function of the Office represents only 5% of the mission for the Finance and Administration Division. The HR function is handled by one FTE, who serves as the team lead for three FTE's, and includes customer service front desk operations, inventory control, sales and cash management, file maintenance. Responsibility also includes processing personnel and benefits actions in conjunction with ADOA benefits, payroll, and human resources departments, maintain personnel files, coordinate the employee Performance Evaluation Program, and liaison with DEMA for the Office's Swine Flu program.

The budgeting function prepares yearly budget documents in BUDDIES, AZIPS, and CLIFF as well as the year-end package for GAO. EPA yearly financial reports, yearly inventory submission for GITA in ISIS, Annual Survey of Government Employment for State Agencies report to the U.S. Census Bureau, annual Report of Indebtedness and Lease Purchase forms for the Department of Revenue, and annual reports to JLBC regarding Electronic Transaction and FTEs.

Additionally, processes all accounting transactions on a daily basis, which include entry into the deposit system; and processes claims, transfers, deposits, encumbrances, and web payment transfers into AFIS. The unit also prepares payroll documents for entry into HRIS, as well as travel reimbursements, and prepares monthly financial reports for internal use as well as weekly and monthly Cash Flow Reports for OSPB.

Finally, the Finance and Administration Division also enters TARFs submitted on paper into the database; sends letters to submitters when TARFs are incomplete, has incorrect information or if they are submitted late and require late fees. Document and follow up on TARF letters and works in conjunction with the Compliance & Enforcement Division with requests that are not addressed by the business that submitted the TARF; and educates industry on TARF related issues (fees, due dates, proper completion of

forms, etc.). A consolidation and reduction in personnel in the budgeting and HR function is not feasible without losing efficiency in this critical area.

## **Licensing**

The licensing division oversees 9,445 licensees and their annual renewals, compared to DA's 2,916 licensees, some of whom are also licensed by this Office. The office has a three-tiered licensing system, which are the Business, Qualifying Party, and Applicator licenses. Within the two latter licenses are eight specialized categories, ranging from General & Public Health Pest Management to Fungi Inspections, which must be monitored. Currently, there is one FTE for business license holders, one FTE for Qualifying Party licensees and one FTE for Applicator license holders and all applicants with criminal convictions. These FTEs back up each other as needed. This division is responsible for criminal background checks, as required by statute, of all licensees, which includes fingerprinting and forwarding documents to the Department of Public safety. The FTE responsible for this activity also oversees the in-house testing program, and processes and maintains all statutorily required proof of financial security for all business licenses. Additionally, one FTE is responsible for the statutorily required continuing education (CE) program. This includes reviewing and recommending approval for all submitted CE content by outside vendors. It also includes monitoring, by visit, all training programs to ensure that the program is adhering to the submitted program of instructions, validating examination questions, and overseeing the in-house training program. A reduction in personnel would result in a severe loss of institutional knowledge and productivity because each FTE specializes in their area of responsibility.

## **Information Technology**

The Information Technology unit presents a different set of challenges for consolidation. The current system between DA and the Office are not compatible. The Office recommends that the operating system used by the Office be maintained upon a move to DA and a single pest management entity is implemented.

The Office's system is designed to provide current information to the public and license holders concerning license status and the ability of the licensees

to renew their license online. In addition, consumers can check complaint history and other information relative to licensed/unlicensed pest management companies and licensed applicators. Even more critical is the Termite Action Report Form (TARF) activity system. Appropriate license holders must submit TARFs online or by paper copy along with applicable fees as required by law. This allows any interested party to view information concerning a residential or commercial structure. The system is capable of accepting online credit cards, electronic checks, and/or savings account transfer payments. There are two FTEs in this operation and a reduction would be counter-productive. The report did not indicate the undetermined data and telecommunication costs by AZnet.

### **Physical Move**

A physical move would not result in any savings. In fact, it will necessitate considerable financial expenditures to affect a move. This is a state-owned building. The Office would still be required to pay rent until a new tenant moves in. The DA's pest management operation could be consolidated within this facility since there would be fewer people to move, 2 – 4 FTE's from DA, Compared to 25 – 28 FTE's from the Office. This type of move would increase the prospects of achieving higher levels of efficiency at an accelerated pace.

### **Pest Management Advisory Committee (PMAC)**

The office supports the Report's recommendation to retain the PMAC. The Office also agrees that the number of PMAC members should increase. The PMAC plays a vital role in advising the Office.

### **Conclusion**

The Report states that integrating the Office's pesticide regulatory activities into DA's Environmental Services Division (ESD) pesticide and non-pesticide functions may promote efficiencies, but may not create as great a focus on pesticide regulations and public protection as would creating a new, comprehensive pesticides program. Additionally, the Report states that 3 of the 5 Pest Management Representatives indicated that merging the Office into ESD was the least preferred option because it would potentially dilute both agriculture and the Office's staff expertise and knowledge, and the responsiveness to the structural pest management industry needs and concerns.

Therefore, the Office supports the Reports recommendation of an operational move to DA, with an emphasis of combining the Office and DA's pest management functions into a single operation. However, a reduction in personnel because of the collaboration would have dire consequences in the ability to accomplish the statutory mission, as well as what the public and the structural / agricultural community expects for safety and compliance. Both organizations are operating at reduced staffing levels because of budget cuts. A further reduction would make it extremely difficult to monitor the 12,361 licensees for compliance and appropriate civil action if required, effectively and efficiently cover 15 counties, 134 cities, 2600 schools, and an expansive agricultural community.

Currently, the Office is self-sustaining and does not require revenue from the general fund as is required by some elements of DA. The solution to being able to carry out the assigned mission is to retain the Office's 90/10 status, while amending the agricultural statute to include DA's pest management operation as a 90/10. The Report states that it may be easier to retain the 90/10 funding mechanism if the Office is kept intact within DA. This would alleviate any personnel reductions, since the combined operation would generate revenue through fees, remain self-sustaining, and contribute to the state's general fund while being able to accomplish a significant measure of the mission.

Combining the pest management operation at the Office's current location is the most practical. The operating infrastructure, including support personnel, are already in place and would require moving 4 FTE' compared to 28 FTEs. Only workstations and associated files would have to move. Therefore, minimal effort would be involved in integrating the incoming inspectors, hygienist, and licensing personnel into the system and being completely operational within 4 weeks. This action would negate the expense of the Office making a physical move.

JANICE K. BREWER  
Governor

DONALD BUTLER  
Director

*Arizona Department of Agriculture*

1688 W. Adams Street  
Phoenix, AZ 85007  
602 542 0990; fax 602 542 5420

December 29, 2009

Ms. Debbie Davenport  
Auditor General  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

Thank you for the opportunity to review the preliminary draft of your office's findings relating to the Office of Pest Management (OPM). I appreciate you raising issues that are also of most concern to our agency relating to the potential move of the OPM into the Arizona Department of Agriculture (ADA). These issues include funding, the cost of relocation, the cost of moving and consolidation of IT capabilities, and the pay differentials within the two agencies.

Movement to the ADA makes efficiency sense in consolidating licensing functions and administrative functions. We will take additional time for inspection functions, should they be moved, to define what areas can be cross-trained and in what areas separate expertise needs to be maintained. The thought of creating a separate pesticide area would be a reverse in efficiency for our agency. We have efficiencies in the ability to send one inspector in to do all the non-food quality programs – feed, fertilizer, seed and pesticides. When seed had its own inspectors, our agency received complaints from stores asking why we had to send in more than one inspector. I also want to make clear, because it was not clear to me in the report, that the same inspection staff does the non-food quality program inspections, as does the pesticide compliance and worker safety inspection. These two programs work together seamlessly. The licensing section does as its name implies, but also provides exceptional customer service as our customer survey cards attest.

As to my areas of concern to echo what was mentioned in the report, there will be costs not only associated with the move but also with the set up in the 1688 W. Adam's Building. I believe keeping the current funding mechanism makes sense as well as looking at other options. This will take discussion with industry, which OPM staff may have already been looking into. One thing of importance is to look at their overall staffing levels. One would believe with the down turn in the housing sector that the number of businesses to regulate has declined as well. To correspond with this downturn, you would believe that OPM's staffing would have been reduced as well.

Ms. Debbie Davenport

December 29, 2009

Page 2

IT movement and consolidation is a big issue. What had been discussed when this possibility was looked at previously in the legislature, was maintaining two separate systems. The OPM system is open source freeware and the ADA is all Microsoft. These two do not merge. OPM has some good tools for licensing that we would hope to utilize. The two agencies have their own IT staff and pay scales. Pay scales with not only the IT staff, inspection staff, licensing, and managers appear to be inconsistent. They may well be within pay grades, but how does one reconcile to staff people doing similar jobs with less experience and yet getting paid more. We understand that job capability comes into play, but there are going to be differences and direction needs to be given to have DOA do a job analysis for job parity and a funding source that can be used if necessary. Without some attention given this issue, employee moral will suffer.

Finally as an agency director I have the ability to set up advisory committees. I would prefer the option of setting up this committee, which I believe is necessary for the merger to occur. If through time industry feels that this is not working they can always go back to the legislature and ask for a change.

I believe it makes sense to have one pesticide regulatory agency in the state. Although people may have concerns, in the long run having a one-stop shop will provide better and easier customer care. Should the legislature determine that we should be merged I stand ready to work to make it happen as smoothly as possible and to work with both the agriculture industry and the pest management industry to address their concerns.

Sincerely,

Donald Butler  
Director

Cc: (electronically)      ADA Advisory Council Members  
Mike Anable, Governor's Office  
Scott Smith, Governor's Office  
Jack Peterson, Associate Director, ESD

## Performance Audit Division reports issued within the last 24 months

---

<b>08-01</b>	Electric Competition	<b>09-05</b>	State Compensation Fund
<b>08-02</b>	Arizona's Universities— Technology Transfer Programs	<b>09-06</b>	Gila County Transportation Excise Tax
<b>08-03</b>	Arizona's Universities—Capital Project Financing	<b>09-07</b>	Department of Health Services, Division of Behavioral Health Services—Substance Abuse Treatment Programs
<b>08-04</b>	Arizona's Universities— Information Technology Security	<b>09-08</b>	Arizona Department of Liquor Licenses and Control
<b>08-05</b>	Arizona Biomedical Research Commission	<b>09-09</b>	Arizona Department of Juvenile Corrections—Suicide Prevention and Violence and Abuse Reduction Efforts
<b>08-06</b>	Board of Podiatry Examiners	<b>09-10</b>	Arizona Department of Juvenile Corrections—Sunset Factors
<b>09-01</b>	Department of Health Services, Division of Licensing Services— Healthcare and Child Care Facility Licensing Fees	<b>09-11</b>	Department of Health Services—Sunset Factors
<b>09-02</b>	Arizona Department of Juvenile Corrections—Rehabilitation and Community Re-entry Programs		
<b>09-03</b>	Maricopa County Special Health Care District		
<b>09-04</b>	Arizona Sports and Tourism Authority		

## Future Performance Audit Division reports

---

Department of Public Safety—Photo Enforcement Program Questions and Answers  
Arizona State Lottery Commission