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OFFICE OF THE  
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June 11, 2015

The Honorable Judy Burges, Chair  
Joint Legislative Audit Committee

The Honorable John Allen, Vice Chair  
Joint Legislative Audit Committee

Dear Senator Burges and Representative Allen:

Our Office has recently completed a 42-month followup of the Department of Fire, Building and Life Safety (Department) regarding the implementation status of the 30 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2011 (Auditor General Report No. 11-13). As the attached grid indicates:

- 10 have been implemented;
- 1 has been implemented in a different manner;
- 17 are in the process of being implemented; and
- 2 have not been implemented.

The Department has made little to no progress in implementing the outstanding recommendations since our last followup, which was issued in February 2014. We have determined that the value of an additional followup for this performance audit is limited. Therefore, unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Department's efforts to implement the recommendations from the September 2011 performance audit report.

Sincerely,

Dale Chapman, Director  
Performance Audit Division

DC:ss  
Attachment

cc: Debra Blake, Interim Director  
Department of Fire, Building and Life Safety

# Department of Fire, Building and Life Safety

## Auditor General Report No. 11-13

### 42-Month Follow-Up Report

#### Recommendation

#### Status/Additional Explanation

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

1.1 The Office should implement and use its new inspection database to better manage, track, and prioritize inspections conducted by the Office and ensure oversight of inspections conducted by local fire authorities that have agreements to conduct inspections on the Office's behalf. Specifically, the Office should:

- a. Track all inspection activities and specific information on violations found during inspections in its database.
- b. Establish a system within its database to prioritize inspections based on fire risk, in conjunction with recommendation 1.4.

- c. Identify buildings in its database that are covered by agreements with local fire authorities, ensure newly constructed buildings in jurisdictions covered by the agreements are entered in its database, and enter inspection data for these buildings in its database.

#### Implementation in process

Rather than implement a new database, the Office of the State Fire Marshal (Office) modified its existing inspection database to better manage, track, and prioritize its inspection activities. See the explanations for recommendations 1.1a through 1.1c.

#### Implemented at 24 months

#### Implementation in process

As reported in the 24-month followup, the Office has begun establishing a system within its database that would allow it to prioritize inspections based on fire risk. Under this system, facilities are assigned a fire-risk score that determines the minimum inspection frequency for each facility. According to the Office, facilities are assigned a fire-risk score when a new facility is built or when the Office conducts its regular fire safety inspections, and these scores are recalculated with each inspection to ensure that the fire-risk score matches the changing conditions at inspected facilities.

However, the Office has not made much progress implementing this recommendation since the 24-month followup. Department records indicate that only about one-third of its facilities have been assigned a fire-risk score, and the Department does not have an estimate of when it will assign scores for the remaining facilities. In addition, the Office does not prioritize inspections based on fire risk. Instead, it reported that because of limited staff resources, it prioritizes inspections primarily based on new construction, propane tank burial/removal, complaints, proximity of other facilities to scheduled inspections, and a goal of inspecting schools at least once every 3 years, rather than inspecting facilities based on assigned fire-risk scores.

#### Implemented at 24 months

## Recommendation

## Status/Additional Explanation

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

**Implemented at 24 months**

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

**Implemented at 24 months**

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

**Implementation in process**

See explanation for recommendation 1.1b.

1.5 The Department should develop or adopt a structured approach to evaluate current fees and propose new fees that would recover office costs. In developing this approach, the Department should do the following:

**Implementation in process**

The Department began adopting an activity-based approach for evaluating and proposing fees based on the cost of providing a service. Although the Department acknowledged the importance of finalizing its approach to evaluate and propose fees, it reported that it has not yet done so because of a lack of resources, time, and expertise. See the explanations for recommendations 1.5a through 1.5d.

a. Assess the efficiency of its operations to ensure costs are as low as possible and document the results of its assessment. The Department should seek to minimize costs where possible.

**Implementation in process**

As reported in the 24-month followup, the Department has implemented measures to track staff time spent on various activities. However, the Department has made little additional progress implementing this recommendation since the 24-month followup and did not provide documentation to demonstrate how these measures were used to assess the efficiency of its operations or to ensure its costs are as low as possible.

b. Develop a method for tracking and allocating relevant department costs, including both direct and indirect costs.

**Implementation in process**

Although the Department has somewhat developed methods to track and allocate department costs, it has not adequately developed or documented these methods. Specifically, the Department has not identified all indirect costs associated with the Office and, as a result, is unable to determine whether the Office's fees would recover all office costs. In addition, the Department did not provide adequate documentation demonstrating that its method to allocate costs for activities is accurate and comprehensive.

## Recommendation

## Status/Additional Explanation

- c. Identify the actual costs for specific activities for which fees are charged to help ensure fees are appropriate and equitable.

### Implementation in process

The Department has analyzed average costs for plan reviews, inspections, and related administrative tasks. Although the Department reported it needed to conduct more detailed analyses to precisely identify the costs of these activities at the 24-month followup, it has yet to do so. However, the Department analyzed its costs to inspect fuel tanks on behalf of the Arizona Department of Environmental Quality (ADEQ) and reported that it is renegotiating its contract with ADEQ to recover the full cost of these inspections.

- d. Consider the effect that proposed fee changes may have on inspected facilities and obtain their input when developing the proposed fees.

### Implementation in process

As reported in the 24-month followup, the Department indicated that it considered the effect of proposed increases to several existing fees, such as fees for obtaining construction permits, through a review of proposed fee increases by the State Fire Safety Committee (Committee), which represents fire chiefs, building officials, and the public (see the explanation for recommendation 1.6 for additional information). However, the Department has not made any further progress implementing this recommendation since the 24-month followup and indicated that it has not sought input from inspected facilities regarding routine fire safety inspection fees.

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

### Implementation in process

As reported in the 24-month followup, the Department analyzed its costs and proposed increases to several existing fees, such as fees for obtaining construction permits, and the Committee approved these fee increases in June 2012. However, the Department has not yet analyzed or proposed new fees for routine fire safety inspections or other fees, such as fees for various types of plan reviews.

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

### Not implemented

The Department has not proposed fees to recover the cost of routine fire safety inspections and has not sought legislation modifying statute to allow the Department to charge fees for these inspections.

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

### Implemented at 6 months

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

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

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

**Implementation in process**

As previously stated in the explanation for recommendation 1.5, the Department began adopting an activity-based approach for evaluating and proposing fees based on the cost of providing a service. Although the Department acknowledged the importance of finalizing its approach to evaluate and propose fees, it reported that it has not yet done so because of a lack of resources, time, and expertise. See the explanations for recommendations 2.1a through 2.1c.

**Implemented at 24 months**

**Implementation in process**

Although the Department has somewhat developed methods to track and allocate department costs, it has not adequately developed or documented these methods. Specifically, the Department has not identified all costs related to regulating the manufactured housing and modular building industries and, as a result, is unable to determine whether its fees would recover all costs. It also has not provided adequate documentation demonstrating that its method to allocate costs for activities is accurate and comprehensive. Further, the Department has not finished developing a method to allocate costs for its licensing fees and has not begun allocating costs for several other fees, including fees for obtaining certificates, some types of permits, and training.

**Implementation in process**

The Department has analyzed the average costs of activities for three of its fees, and as indicated in the 24-month followup, the Board subsequently raised those fees. Since then, the Department has begun to track some factors that affect inspection costs. However, the Department has not yet analyzed the actual costs for specific activities for which fees are charged to help ensure that they are appropriate and equitable.

## Recommendation

## Status/Additional Explanation

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

### Implementation in process

The Department prepared cost analyses for three of its fees and proposed that the Board increase its fees during meetings in April 2012, May 2013, April 2014, and April 2015. The Board gradually increased fees toward full-cost recovery in the 2012 and 2013 meetings. In the 2014 and 2015 meetings, the Department had recommended further increasing some of these fees based on its cost analyses, but the Board did not increase these fees because the Department also indicated that the Board would not need to increase fees to comply with Arizona Revised Statutes §41-2144(A)(4), which requires the Board to set fees so that the total annual fee revenue is between 95 and 105 percent of anticipated expenditures. Specifically, in the 2015 meeting, the Department reported that its fees covered 99.3 percent of its costs in fiscal year 2014, and estimated that without fee increases, fees would cover 96.4 percent of its costs in fiscal year 2015. However, because of inadequate accounting methods, and because it may be misclassifying some expenditures, the Department is underreporting overall costs, including costs from the Department's Office of Administration that should be allocated to the Office of Manufactured Housing.

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

### Implementation in process

Although the Department has created some general guidelines for proposing fee increases, it has not fully developed policies and procedures because its fee proposal method is not fully developed.

## Finding 3: Department has incorrectly spent some Mobile Home Relocation Fund monies

3.1 The Department should continue with its efforts to establish a methodology for charging appropriate direct and indirect costs to the Mobile Home Relocation Fund by:

- a. Identifying and tracking the costs associated with activities that can be paid from the Fund;

### Implementation in process

As indicated in the 24-month followup, the Department is identifying and tracking the costs associated with activities that can be paid from the Mobile Home Relocation Fund (Fund). However, it was largely unable to explain how it determined the costs it has allocated to the Fund, and available documentation about its method for allocating expenses to the Fund is partly based on imprecise information and unclear assumptions. Still, the Department is charging less money to the Fund than it did during the audit. Specifically, the Department charged approximately \$441,000 to the Fund in fiscal year 2014, which is about half of what it charged to the Fund in fiscal year 2011. Auditors also tested a sample of 14 fund-related transactions from fiscal year 2014 and found that documentation properly supported these specific transactions.

## Recommendation

## Status/Additional Explanation

Further, as of February 2015, the Department had not charged the Fund in fiscal year 2015 to pay for homeowner association hearing fees, consistent with statutory changes made by Laws 2014, Ch. 183, that prohibit using the Fund for homeowner association hearings.

- b. Tracking the actual time employees spend on all activities that can be paid from the Fund; and
- c. Considering the GAO's assistance as needed to help ensure that it charges appropriate costs to the Fund.

**Implemented at 24 months**

**Not implemented**

The Department reported that it has not yet requested the GAO's assistance to help ensure that it charged appropriate costs to the Fund. The Department believes that its current efforts will result in appropriate charges to the Fund. However, the Department indicated that it would consider requesting the GAO's assistance if its efforts require further changes.

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

**Implemented at 24 months**

- 3.3 The Department should consult with its assistant attorney general to determine whether any money should be repaid to the Fund, and if so, the amount to be repaid and an appropriate timetable for repayment.

**Implementation in process**

The Department reported that it consulted with its assistant attorney general in February 2012 to determine whether any money should be repaid to the Fund and, if so, the amount to be repaid. The Department reported that it requested updates from the Attorney General's Office—most recently in November 2014—and that a decision has yet to be made.

## Sunset factor #2 The extent to which the Department has met its statutory objective and purpose and the efficiency with which it has operated

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

**Implemented at 6 months**

**Recommendation****Status/Additional Explanation****Sunset factor #4      The extent to which rules adopted by the Department are consistent with the legislative mandate**

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

**Implemented at 24 months in a different manner**  
The Department believes that adopting administrative rules for the payment of monies from the Mobile Home Relocation Fund is not necessary. Instead, the Department indicated that it can rely on an internal policy that specifies that the Department will issue a check directly to the installer, after the installer provides specific documentation that the relocation is complete.

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2. The State Fire Safety Committee should adopt rules for the administration and allocation of monies from the Arson Detection Reward Fund as required in A.R.S. §§41-2146(E) and 41-2167(A). Guidance adopted in rules for the administration of the fund should be consistent with statutory requirements. Rules for the allocation of fund monies should specify how monies for this fund's two purposes—providing reward monies and promoting awareness for the fund—will be allocated.

**Implementation in process**  
The Department requested an exemption to the Governor's moratorium on rule making, most recently in November 2014, to adopt rules for the administration and allocation of monies from the Arson Detection Reward Fund. As of April 2015, the Department reported that it had not yet received a response to its request, but had not submitted another request since the new Governor took office in January 2015.

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**Sunset factor #6      The extent to which the Department has been able to resolve complaints that are within its jurisdiction**

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

**Implemented at 24 months**