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November 14, 2018

The Honorable Anthony Kern, Chair  
Joint Legislative Audit Committee

The Honorable Bob Worsley, Vice Chair  
Joint Legislative Audit Committee

Dear Representative Kern and Senator Worsley:

Our Office has recently completed a 36-month followup of the Arizona Department of Environmental Quality—Vehicle Emissions Inspection Program regarding the implementation status of the 11 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in October 2015 (Auditor General Report No. 15-119). As the attached grid indicates:

- 9 have been implemented;
- 1 is in the process of being implemented; and
- 1 is not yet applicable.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Arizona Department of Environmental Quality's efforts to implement the recommendations from the October 2015 performance audit report.

Sincerely,  
Dale Chapman, Director  
Performance Audit Division

cc: Misael Cabrera, Director  
Arizona Department of Environmental Quality

# Arizona Department of Environmental Quality—Vehicle Emissions Inspection Program

## Auditor General Report No. 15-119

### 36-Month Follow-Up Report

#### Recommendation

#### Status/Additional Explanation

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

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

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

**Implemented at 24 months**

**Implemented at 36 months**

**Implementation in process**

As reported in the 24-month followup, the Department has completed a workload analysis to determine the amount of program staff hours and other costs needed to provide various program services and reported that it planned to use this workload analysis to conduct a comprehensive analysis of its program fees. However, in October 2018, the Department submitted proposed rule changes to the Arizona Secretary of State's Office that would reduce the number of required inspections department staff conduct at both fleet and state vehicle emissions testing stations. If these rule changes are adopted, they would likely reduce the Department's costs for conducting these inspections. Because these inspection costs impact several program fees, the Department reported that it will not begin to conduct the fee analysis until after it has completed its rulemaking process. The Department estimated that it will complete the rulemaking process and conduct the fee analysis by July 2019.

**Not yet applicable**

The Department has not yet proposed any fee changes for the Program. However, the Department plans to conduct a comprehensive analysis of its program fees and estimated that it will complete this analysis by July 2019 (see explanation for Recommendation 1.1c).

**Recommendation****Status/Additional Explanation****Sunset Factor #2: The extent to which the Program has met its statutory objective and purpose and the efficiency with which it has operated.**

- |    |   |                                 |
|----|---|---------------------------------|
| 1. | The Department should continue with its plans to identify important program contract monitoring activities, and develop and implement a contract monitoring plan that includes these activities and helps to ensure contractor compliance with contractual and federal requirements. The contract monitoring plan should also include corrective action follow-up procedures in the event the contractor has not complied with contractual and/or federal requirements, and sample contract-monitoring documentation. | <b>Implemented at 24 months</b> |
| 2. | The Department should develop and implement policies and procedures to further detail and formalize how program staff should implement the contract monitoring plan.  | <b>Implemented at 36 months</b> |
| 3. | The Department should develop and provide contract monitoring training based on its contract monitoring plan, identified contract monitoring activities, and policies and procedures to help ensure its staff effectively conduct contract oversight and monitoring activities.   | <b>Implemented at 24 months</b> |
| 4. | The Department should use the results of a planned effectiveness study to identify and implement program changes to improve the Program's effectiveness and efficiency.   | <b>Implemented at 36 months</b> |

**Sunset Factor #6: The extent to which the Program has been able to investigate and resolve complaints that are within its jurisdiction.**

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|----|---|---------------------------------|
| 5. | The Department should develop and implement a formal complaint-handling process that ensures program complaints are appropriately handled, tracked, and documented.   | <b>Implemented at 6 months</b>  |
| 6. | The Department should monitor the program contractor's complaint-handling process to help ensure it adheres to contract requirements.   | <b>Implemented at 24 months</b> |
| 7. | The Department should track the types of program complaints it receives, and it should review the types of complaints it and the program contractor receive to identify potential trends in complaints that may indicate an issue, and take steps to address the identified issue as necessary. | <b>Implemented at 24 months</b> |