



REPORT HIGHLIGHTS PERFORMANCE AUDIT

Department has reduced some program fees, but can improve its fee-setting process

Our Conclusion

The State of Arizona established the Vehicle Emissions Inspection Program (Program) in 1976 to reduce vehicle emissions and improve air quality, and the Arizona Department of Environmental Quality (Department) is responsible for the Program. The Department assesses program fees to cover the costs of the vehicle emissions testing services it provides to motorists and fleet owners. Although program fees have historically been higher than needed to pay for program costs, the Department reduced some fees in fiscal year 2015 to better align fee revenue with program costs, and it should continue its efforts to establish fees that better reflect program costs. Additionally, the Department should continue with plans to improve program contract monitoring and use the results of its planned effectiveness study to improve the Program's effectiveness and efficiency.

Unless a vehicle falls into an exempted category, all vehicles in the Phoenix and Tucson areas are required to pass a vehicle emissions inspection test prior to being registered with the Arizona Department of Transportation—Motor Vehicle Division. The Department contracts with a vendor to perform the majority of vehicle emissions inspection tests. In fiscal year 2015, the contractor initially tested more than 1.5 million vehicles. Additionally, Arizona law allows fleet owners, such as car dealerships and city governments, to self-test their own vehicles for emissions compliance. The Program issues permits to vehicle fleet locations and licenses inspectors to allow fleet owners to perform a vehicle emissions inspection test on their own vehicles.

Department assesses various program fees—Statute requires the Department to set fees to pay for the full cost of administering the Program and, as such, the Department charges different fees for the different services it provides. Specifically, motorists pay a fee for each vehicle emissions inspection test the contractor performs. Additionally, under certain circumstances, vehicle owners can pay a fee for a certificate of waiver, which allows the vehicle to be registered for one registration cycle without passing emissions testing. Further, fleet owners pay a fee to purchase a certificate of inspection, which a licensed fleet inspector assigns to a vehicle after the vehicle has passed a vehicle emissions inspection test that inspector administered.

Department has reduced some fees, but customers pay inequitable rates for some services—Although program revenues have historically exceeded program costs, in fiscal year 2015, the Department began charging reduced fees for two contractor-performed tests in the Phoenix area, which represent approximately 86 percent of the total tests that the contractor performs in the Phoenix area. According to the Department, the reduction in fees for these two tests was the first in a series of steps it had planned to take to revise program fees. However, the Department's fiscal year 2015 fee revenue of \$30.4 million was still approximately 22 percent more than the Program's total costs. Additionally, some program fees are too low to cover the Department's contractor costs for providing the associated service, while other fees result in customers paying different rates for the same program services.

Department should establish fees to more equitably recover program costs—Consistent with best practices, the Department should continue with its efforts to establish fees that better reflect the costs of program services and ensure that each fee equitably contributes toward the Program's costs. Best practices for government fee setting developed by several government and professional organizations state that user fees should be determined based on the costs of providing a service. Additionally, best practices suggest government agencies should generally limit subsidizing services provided to one group of users with fees charged to another group of users.



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Recommendations

To help ensure program fees better reflect program costs, the Department should:

- Ensure its operations are as efficient as possible to help reduce program costs;

- Develop and implement a method for determining and tracking program costs;
- After developing this cost methodology, determine the appropriate fees to charge for each program service and set program fees accordingly; and
- Consider the impact 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.

Department should continue to improve program contract monitoring and use results of effectiveness study to make program improvements

In the Sunset Factors section of the report, we also identified the following two areas for program improvement:

Department should continue improving program contract monitoring—Contract monitoring is important to ensure that the vehicle emissions inspection contractor implements the Program as agreed upon in the contract and provides all stipulated services. Additionally, beginning in fiscal year 2015, the contractor was assigned responsibilities that the Program previously performed. Our Office’s 2007 audit (see Report No. 07-12) found that the Department had not verified or monitored contractor compliance with contract provisions or federal requirements. The report recommended that the Department expand its contract monitoring activities.

By the time of this audit, the Program had not completed implementing these recommendations. The Department and Program have since taken steps in fiscal year 2015 to address these previous recommendations and improve contract monitoring. The Department should continue with its plans to identify important monitoring activities, such as monitoring the contractor’s complaint-handling processes, and develop and implement a contract monitoring plan that includes these activities and helps to ensure contractor compliance with contractual and federal requirements.

Department should use results of effectiveness study to improve the Program’s effectiveness and efficiency—The Department is statutorily required to determine the effects of vehicle emissions on air quality, although statute does not specify how frequently the Department should make such a determination. Additionally, the Department has statutory authority to contract for effectiveness studies for the purpose of analyzing the costs and benefits of pollution reduction measures and to evaluate the results of any testing program required by statutes.

Conducting an effectiveness study will likely provide useful information on program operations that the Department could use to improve program effectiveness and efficiency. In July 2015, the Department procured and established a contract with a consultant for an effectiveness study to be completed by December 2015. After the study is completed, the Department should use the study’s results to identify and implement program changes to improve the Program’s effectiveness and efficiency.

Recommendations

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;
- Develop and implement policies and procedures to further detail and formalize how program staff should implement the contract-monitoring plan; and
- Use the results of a planned effectiveness study to identify and implement program changes to improve the Program’s effectiveness and efficiency.