



Douglas A. Ducey  
Governor

# ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY



Misael Cabrera  
Director

September 28, 2015

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

Re: Response to Draft *Performance Audit and Sunset Review of the Arizona Department of Environmental Quality – Vehicle Emissions Inspection Program*

Dear Ms. Davenport,

This document provides the Arizona Department of Environmental Quality's (ADEQ's) draft response to the September 21, 2015 revised preliminary report draft of the *Performance Audit and Sunset Review of the Arizona Department of Environmental Quality – Vehicle Emissions Inspection Program*.

Prior to the Auditor General's review of the Vehicle Emissions Inspections Program, ADEQ had already begun voluntarily reducing the fees charged for the service provided to more than one million motorists in Maricopa County by more than 25 percent. To our knowledge this is the first time in the last ten years that a state agency has reduced its fees and revenues without prompting. We believe that through efforts such as our lean transformation we will continue to provide our service faster, better and cheaper, allowing us to provide increased value for lesser costs. ADEQ is committed to finding additional efficiencies and expects to make additional fee reductions in this program through a thoughtful, step-based approach.

Overall, ADEQ has chosen a path that seeks to balance the needs of the economy, environment and community. We begin by drawing feedback from representatives of each group. By taking an inclusive approach we are able to better identify the manifest values in each group helping us to solve the underlying problems and create victories for each group. A great example of this is the implementation of our gas cap replacement program.

As noted in the report (see page 19), ADEQ worked closely with its contractor, Gordon Darby Arizona Testing, Inc. (Gordon Darby) to develop and implement a plan to replace leaking gas caps at the time that Gordon Darby tested the faulty gas cap. Prior to implementing this plan, a vehicle owner would fail the emissions test, be sent to purchase a new gas cap at an off-campus store, and be encouraged to return to the testing station after the gas cap had been replaced. As long as the vehicle owner returned for a retest within 60 days, the retest would be free to the motorist.

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ADEQ and its partner found that this problem maximized the worst possible outcomes for the environment (air quality), the community (vehicle owner), and the contractor (economy). After the failed emissions test the vehicle owner could operate the vehicle for up to 60 days, all the while leaking extra air pollution into the environment from the faulty gas cap. Upon return the vehicle owner would have to wait in line for the free retest, wasting their valuable time. When the vehicle owner finally received the retest, Gordon Darby was providing a service to the motorist for no fee, incurring extra cost for the rework.

Through careful analysis it was determined that Gordon Darby could stock more than 90 percent of the gas caps at its testing locations. If a vehicle failed the gas cap test, the motorist only needed to provide consent and a new gas cap would be immediately installed on the vehicle. Gordon Darby would then provide the motorist with a passing grade completing the process. This solution saves air pollution emissions into the environment, saves the vehicle owner the extra time spent procuring a gas cap and waiting for a retest, and saves Gordon Darby money as a free retest isn't performed, lowering the cost to do business. As a result, Gordon Darby provides this service to Arizona motorists for no extra charge to the vehicle owner or the State.

In Fiscal Year 2015, the gas cap replacement program was used by more than 50,000 motorists, reducing initial failure rates by 45 percent. We anticipate similar results this fiscal year.

Throughout the audit process we have appreciated the cooperation, diligence and hard work of the Auditor General's staff in completing this performance audit. Their work has been diligent, thoughtful and thorough. The consideration of our feedback and information throughout the process has resulted in an improved report and recommendations that ADEQ has determined it can implement. Already our staff is hard at work developing plans for response and we look forward to providing updates on our activities soon. Our direct responses to the findings are attached to this document.

In the spirit of identifying opportunities for additional efficiency, ADEQ would like to request that the Legislature align the sunset audit of the Vehicle Emissions Inspections Program with the Department's sunset audit. The 2013 sunset audit of ADEQ included a thorough analysis of the entire Department's budget, including the funds associated with the Vehicle Emissions Inspections Program. The 2015 audit of the Vehicle Emissions Inspections Program appears to have covered the same ground. If the two audits can be combined, the state has the opportunity to reduce the amount of duplicate effort and save taxpayer resources that could be used for other purposes, allowing the State to provide more value for less cost.

If you have questions, please contact Eric Massey, ADEQ's Air Quality Division Director, at (602) 771-2288.

Sincerely,

Misael Cabrera  
Director

## RESPONSE TO FINDINGS

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

**Recommendation #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 efficient as possible to help ensure programs costs are as low as possible;

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

- b. Develop and implement a method for determining and tracking program costs, and create policies and procedures for using this method; and

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

- 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

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

- d. Consider the effect that proposed fee change 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.

**Response:** The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

## RESPONSE TO GENERAL RECOMMENDATIONS

**Recommendation#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 or federal requirements, and sample contract-monitoring documentation.

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

**Recommendation #2:** The Department should develop and implement policies and procedures to further detail and formalize how program staff should implement the contract monitoring plan.

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

**Recommendation #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.

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

**Recommendation #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.

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

**Recommendation #5:** The Department should develop and implement a formal complaint handling process that ensures program complaints are appropriately handled, tracked, and documented.

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

**Recommendation #6:** The Department should monitor the program contractor's complaint handling process to ensure it adheres to contract requirements.

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

**Recommendation #7:** The Department should track the type 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.

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