PERFORMANCE AUDIT

DEPARTMENT OF ENVIRONMENTAL QUALITY

Management Functions

Report to the Arizona Legislature
By the Auditor General
August 1993
93-4

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August 23, 1993

Members of the Arizona Legislature

The Honorable Fife Symington, Governor

Mr. Edward Z. Fox, Director
Arizona Department of Environmental Quality

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Department of Environmental Quality management functions. This report is in response to a September 13, 1992 resolution of the Joint Legislative Oversight Committee. This performance audit was conducted as part of the Sunset Review set forth in Arizona Revised Statutes §§41-2951 through 41-2957.

This is the first in a series of reports to be issued on the Arizona Department of Environmental Quality. The report addresses several Department-wide management issues. These agency-wide issues are significant because the lack of adequate management in key areas can affect many programs simultaneously. In one area, recovering program costs allowed by law, we found that the Department lacks procedures needed to ensure effective cost recovery and has lost over $1 million annually. We also found that the Department did not comply with Arizona procurement requirements for several major purchases. In addition, key aspects of the Department's collections and electronic data processing functions are inconsistent with generally accepted practices in those areas.

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

This report will be released to the public on August 24, 1993.

Sincerely,

Douglas R. Norton

Douglas R. Norton
Auditor General

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SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Environmental Quality (ADEQ) management functions pursuant to a September 30, 1992 resolution of the Joint Legislative Oversight Committee. The audit was conducted as part of the Sunset Review set forth in Arizona Revised Statutes §§41-2951 through 41-2957.

This audit was conducted to address Department functions that are essential to effective, efficient operation but which would not be fully addressed by audits of specific programs. With this in mind, we targeted cost-recovery, revenue collection, contract management, and EDP services for review. In each case, responsibility for managing these activities is not assigned to a single organizational unit, but is dispersed throughout ADEQ.

ADEQ Has Been Slow To Implement Cost-Recovery Program (see pages 5 through 9)

The Department has only recently accelerated efforts to recover program costs allowed by statute. Weak efforts in past years have cost the Department over $1 million in annual revenue, and shifts the burden of regulatory costs from responsible parties to the taxpayers. ADEQ's lack of success in recovering monies owed is largely due to the Agency's past failure in making cost recovery a Department priority.

Although the Agency's current administration has shown greater interest in cost recovery, any serious attempt to improve ADEQ's cost-recovery effort will also require the development of policies and procedures to provide greater coordination and consistency to what has been a fragmented, ineffective program.

ADEQ Can Collect An Additional $396,000 Annually In Fees (see pages 11 through 13)

In addition to revenues lost due to a weak cost-recovery effort, we also identified $396,000 in uncollected fees owed to ADEQ in 1992. This is due to the Department's failure to institute common collection practices such as second billings, penalties for late payment, and the use of a collection agency when necessary.

Other revenues may be lost because the Department does little to verify that correct payments are made by regulated facilities. Many fees are based on information provided by the regulated community, such as the amount of disposed waste or discharged effluent. However, ADEQ lacks the audit capability to review records to

ensure that correct fees are paid. We found evidence of underpayment--a limited review (28 of 2,400 accounts) identified 12 cases with estimated underpayments totalling $65,000.

Contract Management
At ADEQ Is Poor (see pages 15 through 19)

ADEQ's failure to manage Agency contracts in accordance with accepted standards has been costly. We documented instances in which questionable contractor payments were made due to the Department's poor contract management. In one case a poorly conceived contract led to excessive payments of $1 million.Because of the large dollar amounts involved, it is imperative that ADEQ take action to strengthen its contract management function. Basic, but critical steps, such as developing policies and procedures and training all relevant personnel to follow accepted practices, need to be quickly initiated. Further, the Department should also establish a greater role for its Contracts and Procurement section to ensure a more coordinated contracting effort.

While ADEQ makes these changes, the State Procurement Office (SPO) should assist the Department by providing the training and oversight necessary to ensure effective implementation. Moreover, SPO should closely monitor all contracts over $25,000 to ensure that the Department protects the State's interest in dealing with contractors. If ADEQ contracts continue to jeopardize the State's interest, SPO should rescind or curtail the Department's authority to manage its own contracts.

ADEQ's EDP Function Needs
More Effective Management (see pages 21 through 26)

ADEQ is unable to effectively utilize its electronic data processing (EDP) technology because of poor management. For example, although the Department invested nearly $1.8 million to create an extensive data communications network, much of this capability remains underutilized. Our review found that information continues to be gathered, maintained, and used in separate, unconnected databases.

Such problems are due to a lack of coordinated executive-level involvement in managing the Agency's EDP function. To correct this problem, ADEQ needs to create an EDP steering committee composed of executive-level staff, senior program managers, and key EDP personnel. The committee needs to develop a strategic plan to guide EDP development, develop policies and procedures, define EDP responsibilities, and establish a budget for meeting Agency-wide EDP objectives.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Environmental Quality (ADEQ) pursuant to a September 30, 1992 resolution of the Joint Legislative Oversight Committee. This is the first in a series of four audits. The audits are conducted as a part of the Sunset Review set forth in Arizona Revised Statutes §§41-2951 through 41-2957.

Responsibility For Several Key Functional Areas Is Distributed Throughout The Agency

The purpose of this audit was to review functions that affect numerous Agency programs and subdivisions, but which would not be fully addressed by an audit of a particular Agency program or subdivision.

With this in mind, our Office targeted several functions for review, including cost recovery and revenue collection, contract management, and EDP services. In each case, management responsibility is dispersed to various Departmental offices, sections, and units; and in some cases to other governmental agencies. A brief overview of each of these functional areas details this point:

- REVENUE COLLECTION AND COST RECOVERY - Monies collected either by or for ADEQ represent the major source of the Agency's funding. In fiscal year 1992, for example, ADEQ deposited more than $35 million into various Agency accounts. By comparison, total General Fund appropriations for that same period totaled just over $11.6 million.

  The Department's non-General Fund revenues come from a variety of fees, taxes, and penalties assessed for such items as permitting, hazardous waste generation, pesticide registration, new tire sales, and industrial discharge registration. In some cases, such as the State's cleanup effort, ADEQ is authorized to recover all its service costs.

  Responsibility for producing and collecting these revenues is shared among several governmental agencies. For example, air quality fees used by ADEQ for research and other activities are collected by the State Motor Vehicle Division and two county governments (Gila and Santa Cruz).

  Other non-General Fund revenues are strictly ADEQ's dominion, however. The Department has distributed revenue-producing responsibilities to various Agency subdivisions. Delegated responsibilities include: 1) establishing fee amounts, 2) billing, 3) determining who owes the Agency money (and how much), 4) following up on delinquent accounts, and 5) tracking program costs.

The only centralized activity performed in this area is the collection function, which is conducted by the Office of Administration's Accounts Receivable unit.

- **CONTRACT MANAGEMENT** - Payments for outside services account for nearly one-fourth of expenditures at the Department. ADEQ spent more than $18.8 million in fiscal year 1992 for a wide range of activities, including cleanup (or remediation) services, legal services, the vehicle emissions program, EDP services, lab analyses, and consulting services.

  Contract management is largely decentralized at the Department. Each of the four semi-autonomous offices within ADEQ (Administration, Water Quality, Waste Programs, and Air Quality) has primary responsibility for identifying the need for outside services, setting the service requirements, and monitoring the contractor's performance.

  Some contract functions are handled jointly by the Office of Administration's Contracts and Procurement section and the relevant Agency Office, section or unit. These functions include developing bid specifications, soliciting requests for proposals, and selecting vendors.

- **EDP SERVICES** - Computer technology is widely utilized by ADEQ. For example, in an attempt to create an extensive EDP infrastructure, ADEQ has purchased 450 personal computers, and developed a powerful data communication network capable of extensive Agency-wide data sharing and integration.

  As with contract management and revenue-producing activities, EDP services and technology are primarily administered by the four Agency Offices. Each has the authority to identify EDP needs and purchase hardware and software independently of the others. Moreover, each Office retains its own personnel devoted to EDP activities.

Audit Scope

Our audit identified management problems in each of the areas described above. These problems are addressed in four findings that discuss:

- The need to improve the Agency's cost-recovery effort to avoid losing millions of dollars in potential revenue.
- The need to strengthen the Department's overall collection effort to increase annual revenues.
- The need to strengthen ADEQ's contract management function to reduce excessive and uncontrolled expenditures.
- The need for ADEQ to more effectively manage its EDP function.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the Director and ADEQ staff for their cooperation and assistance during the audit.

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FINDING I

ADEQ HAS BEEN SLOW TO IMPLEMENT COST RECOVERY PROGRAMS

The Arizona Department of Environmental Quality (ADEQ) has only recently begun to emphasize cost recovery as an agency priority. Although cost-recovery programs are meant to ensure that persons or facilities creating the need for environmental regulation bear the costs of those activities, weak agency efforts in the past have allowed over $1 million in potential annual revenue to go uncollected.

Cost Recovery Is An Important Environmental Management Tool

Recovering costs from those who create the need for environmental regulation or clean-up serves at least two purposes: 1) it ensures that the cost of regulation is borne by the responsible individuals or facilities; and 2) it helps ensure funding for future activities.

ADEQ has implemented cost-recovery programs in seven areas. Three areas involve pollution cleanup: emergency response, remedial projects, and leaking underground storage tanks. The remaining areas involve recovering the costs of certifying operators, and issuing air quality, hazardous waste, and aquifer protection permits. Responsibility for cost recovery is dispersed throughout ADEQ: program staff within each area are primarily responsible for documenting costs, identifying who should pay, and ensuring that payments are received. Only one aspect is centralized to any extent: the Office of Administration has a cost-recovery unit that compiles cost information for nonemergency remediation projects. However, the seven areas handle all other cost-recovery activities with no Department-wide guidance.

Cost recovery can have significant fiscal implications. In Arizona, State remedial projects and some emergency cleanup activities are funded by the State Water Quality Assurance Revolving Fund (WQARF).[1] The extent to which the Department can recover the costs of these activities affects the Fund's solvency and the Department's ability to undertake additional projects. For example, an effective cost-recovery effort could partially offset the $2.9 million reduction in General Fund

1 The Water Quality Assurance Revolving Fund was created in 1986 by the Environmental Quality Act. The initial statute authorized $5 million in general funds for WQARF. Since that time WQARF has been funded with a combination of dedicated fees, general funds, and cost recovery collections.

appropriations to WQARF for fiscal year 1993-94. In like manner, recovering the costs of issuing permits allows the State to help fund some of its essential regulatory activities.

Weak Recovery Effort Has Cost ADEQ Over $1 Million Annually

Despite the potential fiscal benefits, ADEQ has historically had little success recovering costs. The Department's failure to effectively or completely implement cost-recovery programs allowed by law has been costly. A stronger effort would have added millions of dollars in revenue to the General Fund and WQARF.

Collections for remediation efforts - Although incomplete documentation made a full accounting of recoverable costs impossible, we still found strong evidence that ADEQ has not recovered a significant portion of the regulatory costs allowed by law. For example, although the Department identified $15.9 million in recoverable costs associated with contamination cleanup between 1987 and June 1993[1], our review showed collections of only $1.9 million (12 percent).

This lack of success in collecting remediation costs is due in large measure to a weak Departmental effort. For example:

- The Department has not attempted to recover approximately $2.5 million in remediation overhead costs. Although these costs are recoverable, ADEQ never developed a plan to allocate them to specific projects so that responsible parties can be billed. Because of the Department's inaction, these costs may never be recovered.

- The Department has not attempted to recover almost $640,000 for 22 emergency cleanup projects, even though some of these projects have been complete for as long as five years.[2]

- Despite three-and-one-half years of fruitless negotiations, the Department has yet to take forceful action against one responsible party that owes the Agency approximately $400,000.

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1. Between 1987 and June 1993, ADEQ spent $32.6 million on remediation efforts. $16.7 million was not tracked as recoverable expenses, however, with proper documentation, some of these costs may be recoverable.

2 These costs only represent outside professional service contract expenses. We were not able to identify site-specific ADEQ payroll and travel expenses because the Department does not document site costs until after recovery proceedings are initiated.

Air and water quality permits - Our review indicates ADEQ's weak effort extends to other program areas as well. For example, the Office of Air Quality (OAQ) is allowed to recover costs associated with issuing permits. Although recoverable costs are estimated to be $763,000 during fiscal year 1993, nearly $585,000 will not be collected due to OAQ's failure to adequately track program expenditures and pass these costs along to the regulated community.

In addition, although the Office of Water Quality (OWQ) is authorized to recover costs for plan reviews, inspections, and wastewater reuse permits, the OWQ has never initiated steps to recover them. ADEQ does not maintain a record of these total costs. However, the head of ADEQ's Management, Budget and Audit section used program activity and staffing records to estimate that uncollected revenues for these activities could be as high as $360,000 annually.[1]

Greater recovery possible - Although insolvent and unknown responsible parties make collecting the total costs associated with remediation unlikely, ADEQ could substantially increase its recovery rate with a stronger effort. The performance of two states, identified by ADEQ personnel as having strong recovery programs, show that recovery rates higher than ADEQ's 12 percent are feasible. Washington's Ecology Department, for example, reports that it recovered approximately 19 percent of its remediation costs over a six-year period, while the Oregon Environmental Quality Department reported a 23 percent recovery rate for a similar time frame. If ADEQ had matched the performance of Washington and Oregon between July 1987 and June 1993, it would have added over $1 million, or about $185,000 annually, to WQARF. The additional cost for this effort would be minimal since the Department already has staff in place for most of the needed activities.

In addition, the Department could have generated an additional $945,000 in State revenues annually if ADEQ had established recovery programs for plan reviews and wastewater reuse permits, and collected all monies allowed for air quality permits.

Cost Recovery Has Not Been A Departmental Priority

Despite its obvious fiscal benefits, cost recovery programs have historically not been an agency priority. Lack of commitment by key Agency managers has caused these programs to stagnate. Although fiscal constraints have enabled ADEQ's current Director to motivate these managers to treat cost recovery as a priority concern, any serious attempt to improve these programs will require the development of policies and procedures to guide staff.

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1 This annual figure does not include uncollected revenues for activities related to inspections. Because costs associated with this function have been inconsistently tracked, it was not possible to present a reliable annual figure.

Lack of commitment - Cost-recovery efforts have been hampered by the low priority given them by Agency managers. Numerous program managers have told us that cost recovery has simply not been a pressing concern. These managers have stated that unless they receive direct benefit from monies recovered, they generally will not actively pursue recoverable costs. This attitude seriously hinders the Agency's recovery effort, since most recovered funds go to the General Fund or WQARF, and not to the program area.

The low priority given to cost recovery by the Department is also evident in its passive approach toward parties responsible for contamination cleanup. Our review showed the Department has traditionally been unwilling to aggressively seek repayment of costs incurred. Typically, ADEQ postpones action or negotiates with responsible parties beyond a fruitful point. For example:

- Although the responsible party consistently refused to cooperate with ADEQ for over three years, the Department waited until May 1993 to file suit to recover approximately $400,000 in monies owed.

- Likewise, after identifying another responsible party in 1989, ADEQ did nothing to recover approximately $427,000 in Agency costs for one year. The Department then spent one-and-one-half years in futile negotiations before initiating legal action in 1993.

Fiscal necessity combined with the efforts of the current ADEQ Director has spurred the Department to take a greater interest in cost recovery activities. The elimination of General Fund appropriations for the WQARF coupled with low fund balances have impeded the Agency's ability to fund Agency programs. This development has helped the Director motivate reluctant Agency managers to emphasize cost recovery as a necessary Agency function. For example, ADEQ has initiated proceedings for current as well as former cases. As noted in the examples above, the Department recently filed suit in two long-standing cases. In addition, ADEQ is working with the Attorney General's Office to determine whether expenses associated with previous emergency response incidents can still be recovered.

Policies and procedures - ADEQ needs to followup on these efforts in order to sustain the momentum it has built. Any serious attempt to improve ADEQ cost recovery will also require the Department to develop a comprehensive set of policies and procedures. As noted previously, responsibility for cost recovery is dispersed throughout the Agency. ADEQ does not have policies and procedures which: 1) identify cost-recovery roles and responsibilities within the Agency, 2) facilitate a systematic method for tracking, documenting, and allocating costs, 3) explain how to handle situations that arise frequently, such as uncooperative responsible parties, and 4) establish time frames for followup action. This lack of direction has caused confusion among Agency personnel. Once policies and procedures are developed,

moreover, all staff involved in cost-recovery activities will need to be adequately trained to ensure effective implementation.

RECOMMENDATIONS

1. ADEQ should ensure that cost-recovery proceedings are initiated for all programs where statutory authorization exists.

2. In order to more effectively recover costs, ADEQ should:

   - Develop a policy and procedures manual for each cost-recovery system. The policies and procedures should address, at a minimum:

     - *cost-recovery roles and responsibilities within the Department,*
     - *systematic methods for tracking, documenting, and allocating costs,*
     - *how to handle situations that arise frequently, such as uncooperative responsible parties, and*
     - *time frames for action.*

   - Provide training to all employees involved with the cost-recovery process.
   - Initiate recovery proceedings as soon as a responsible party is known.
   - Limit negotiations to a reasonable time period.

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FINDING II

ADEQ CAN COLLECT AN ADDITIONAL $396,000 ANNUALLY IN FEES

ADEQ's collection process is poor. In addition to revenues lost due to poor cost recovery (see Finding I), we also identified $396,000 in uncollected fees during 1992. Other revenues may also be uncollected because the Department does not verify that correct amounts are collected.

Inadequate Collection Procedures Have Hampered ADEQ's Revenue-Producing Effort

The Department does little to ensure that all monies owed are collected. We reviewed collections for 9 of the 12 fees collected directly by ADEQ in 1992.[1] Although these fees generated $2.4 million for the Department, we estimated the Agency could have collected an additional $396,000 in calendar year 1992.[2]

Our review showed that ADEQ collection practices are weak in comparison to those employed by the Internal Revenue Service, and other State agencies, including the Attorney General and the Departments of Revenue and Transportation. Currently, the Agency's Accounts Receivable unit simply bills facilities for fees owed, and documents payments that are made. Personnel within this unit claim that the lack of 1) management direction, 2) statutory authority, and 3) adequate staffing have prevented them from implementing followup actions used by other collecting agencies. For example:

- MULTIPLE BILLINGS - ADEQ's use of second billings has been sporadic. The Department's practice has been to mail past due notices only when time permits. As a result, only 50 percent of the 1992 delinquent accounts we analyzed received notices by the Agency that monies were unpaid. Moreover, some of the second billings that were sent took nearly a year to prepare.

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1 We did not review three of ADEQ's fee categories. We were unable to review the underground storage tank activity tax due to inadequate documentation. We also did not examine the dry well registration fee, as it is a one-time fee which is collected in advance. Furthermore, we did not analyze the hazardous waste manifest fee as the Department was late initiating this fee program and the collection of 1992 fees did not begin until after our audit.

2 Our methodology was designed to avoid overstating lost revenues. We eliminated any facility which we suspected may not have been truly delinquent, either because it had closed or because it did not owe ADEQ a fee for that particular period. The net result of this purging was that we probably underestimated the total amount of revenues lost.

At a minimum, ADEQ should establish a system for sending second billings that inform facilities of their obligation to pay and the consequences of not paying. The Department of Revenue sends past-due notices and contacts debtors by phone to produce payment. Likewise, the Internal Revenue Service follows up on past-due accounts with up to four letters demanding payment.

- LATE PENALTIES - ADEQ lacks statutory authority to assess penalties for all but two fee categories. However, even where the Agency does have authority, the Department takes no coordinated action to ensure that fines are actually paid. We were told by accounts receivable staff that they do not have time to ensure that penalties are paid.

  The Department should request authorization to assess late penalties on all fee categories and should ensure that penalties are paid when appropriate. Both the Internal Revenue Service and the Department of Transportation assess penalties on accounts that are not paid. When the Internal Revenue Service sends billings, the unpaid balance plus penalties and interest are shown as the amount due and until the full amount due is paid, penalties and interest continue to accrue.

- COLLECTION AGENCIES - ADEQ does not routinely pursue payment for past-due accounts or use collection specialists. In fact, billing statements for subsequent periods do not indicate past-due amounts from previous billings.

  If the Department is unable to collect payment through its own efforts, it should refer uncollectible accounts to a collections specialist. The Department of Transportation's procedure is to refer its past-due accounts to the Attorney General or a private collection agency (depending on the amount owed) when all other collection efforts have been exhausted.

ADEQ Does Not Verify That Correct Payments Are Received

In addition to monies lost due to a poor collection process, the Department's inability to verify that payments are accurate may be causing other revenues to be lost. Seven fees collected by ADEQ are based on information provided by regulated facilities. In one case, for example, the fee amount owed is based on total tons of waste disposed into a landfill. In another, the fee paid is dependent on the amount of pollutant discharged by a regulated facility into State waters.

Although collections for these fees are substantial (over $1.4 million during 1992), ADEQ does not have enough personnel to confirm that correct amounts are paid. In most cases, the Department would need to audit records housed with the regulated facilities, but the Agency has no staff to perform this function.

We found evidence that suggests auditing facility records would be beneficial. For example, in a very limited review (28 of 2,402 total Agency accounts)[1], we found 12 cases that indicated the Department was underpaid $65,300. In each case, we found discrepancies between what was reported by the facilities on their fee statements and what was reported by them on other documentation. For instance, we noted one company stated on its fee statement that it burned 414,444 gallons of used oil and thus owed ADEQ $24,867 ($.06 for each gallon burned). However, according to ADEQ records, other information submitted by the facility showed it actually burned more than 1 million gallons. Thus, it seems that ADEQ was underpaid almost $36,000.

Without a viable audit function, ADEQ will not be able to ensure that payments requiring verification are correct. Although the Department is authorized two internal auditors, these positions are currently vacant due to budget constraints. Given the potential for lost revenue, our review suggests filling these positions would be cost-effective.[2]

RECOMMENDATIONS

1. ADEQ should improve its collection process by:

   - utilizing timely past-due notices which inform facilities of their obligation to pay and the consequences of not paying;
   - assessing late penalties where authorization exists; and
   - utilizing collection agencies when all other efforts have failed.

2. The Department should request authorization from the Legislature to assess late penalties where such authority has not been granted.

3. To ensure that correct payments are received, ADEQ should fill at least one of its internal audit positions.

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1 We reviewed accounts from three of the seven fee categories which base the amount due on information provided by the regulated facilities.

2 Funding the two internal audit positions would cost ADEQ approximately $71,000 annually. This amount covers payroll and employer-related expenses, operating costs, and in-state travel.

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FINDING III

CONTRACT MANAGEMENT AT ADEQ IS POOR

ADEQ needs to strengthen its contract management. Lack of expertise and a weak contract and procurement function have led to questionable contract expenditures. To control costs and ensure adequate service delivery, ADEQ will need to: 1) develop policies and procedures, 2) provide staff training, and 3) increase the role of its Contracts and Procurement section.

Contract management is critical to the ADEQ's success in carrying out its assigned responsibilities. The Agency spent approximately $19 million in fiscal year 1992 (nearly 25 percent of its total expenditures) for a variety of contracted services, ranging from the cleanup of contaminated sites to EDP services. The Department has been delegated unlimited authority to manage its contract expenditures within the guidelines established by the State Procurement Office. ADEQ has elected to decentralize its contracting function by giving much of the administrative authority to the Agency's various program areas, thus reducing the role of its Contracts and Procurement section.

Despite the importance and large dollar value of ADEQ's contracts, the Agency managers were not aware of the full scope of its contract activities. Information regarding how much the Agency was spending for contracted services, and how many contracts were currently in effect was not readily available. As a result, we reviewed ADEQ's contracting process in detail. We selected 12 contracts totaling more than $7 million for our analysis.[1]

Contract Management Deficiencies Have Been Costly

Our review confirmed that contract management at the Agency is weak. As the four cases presented below demonstrate, ADEQ's lack of adequate in-house expertise and the diminished role of its Contract and Procurement section have resulted in excessive or uncontrolled expenditures for contracted services:

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1 Although the total number of contracts currently in effect is unknown, we were able to determine that the Agency administered at least 160 contracts during fiscal year 1992. Time constraints and the large number of Agency agreements made a complete contract review impossible. We analyzed contracts with high dollar values and diverse service requirements.

- **CASE ONE - WASTE TIRE CONTRACT**

ADEQ's lack of expertise, as well as its haste to implement the program, added as much as $1 million to the contract cost for removing waste tires throughout the State. Rather than have vendors set a fair price based on a measurable service requirement, such as the cost per tire disposed, ADEQ agreed to pay the winning contractor 55 percent of all revenues collected in the State's Waste Tire Fund, regardless of the number of waste tires disposed of by the vendor.

Consequently, when the number of waste tires removed by the vendor turned out to be little more than one-half ADEQ's original estimate of 6 million, the Department was still obligated to pay the vendor 55 percent, or $2.4 million of the Funds' revenues. This increased the cost for the disposal service from $.42 per tire removed (the maximum amount ADEQ anticipated paying based on its initial estimate of waste tires) to $.71 per tire.

The State Procurement Office (SPO) was highly critical of this contract. According to SPO's assistant administrator, ADEQ's failure to request vendors to bid on a measurable service (such as the price per removed tire) artificially drove up the cost of the contract.

ADEQ procurement officers agreed that the contract was poorly conceived and that its procurement staff lack the training needed for administering contracts of this sort. An ADEQ official stressed that the need to quickly start up the program prevented the use of "optimal procurement practices."

- **CASE TWO - MODULAR FURNITURE CONTRACT**

An inappropriate evaluation of vendors competing to design, build, and install over $1 million worth of modular furniture for its new headquarters required ADEQ to purchase $120,000 in unneeded furniture.

The State Procurement Code requires agencies to clearly state the procedures they intend using to evaluate vendors' proposals. ADEQ failed to do this, however. Instead, Agency staff developed the evaluation procedure during the contracting process itself.

As a result, the Department ultimately used three separate and different evaluations before finally deciding upon the winning vendor. ADEQ never indicated beforehand how many evaluations would be used, and, according to State Procurement officials, this use of multiple evaluations gave the appearance that ADEQ was prolonging the selection process until the vendor it favored was selected. ADEQ staff claimed that ambiguities contained in the Agency's request for vendor proposals caused them to add additional evaluations to obtain the best possible product.

When one losing vendor protested the fairness of the evaluation procedure, ADEQ proceeded with the purchase despite being warned by the State Procurement Office that the vendor's protest was valid. The vendor persisted in its protest, however, and the Department agreed to purchase $120,000 in new chairs from the protesting vendor rather than face legal action and move to their new facility without the needed modular furniture.

ADEQ had not intended to purchase chairs when it originally initiated its furniture contract, and could have avoided this unnecessary expenditure with a proper understanding of the State Procurement Code.

- **CASE THREE - REMEDIATION CONTRACTS**

ADEQ repeatedly amended four remediation contracts to increase project funding during fiscal years 1992 and 1993 without adequately reviewing the need for those increases. The contract amendments raised the total cost of the four contracts by $571,000, or 60 percent of the original contract amounts. In some cases, contractors' requests for increased funding were presented simply as "continuation of work." Although cost increases are not unusual in remediation contracts, ADEQ did not review the requests to determine if the payments in excess of original contract amounts were justified. In other cases, ADEQ contract staff increased contract amounts without a contractor request because contract balances appeared to be low.

Any effort to review the justifications for the requested increases would have been ineffective because some of the remediation contracts had vague work plans. For example, one contract "work plan" consisted of little more than generic descriptions of the types of work that might be performed: *"perform technical reviews,...provide training programs,...sampling monitoring wells and analysis."* In no case did the contract specify what these activities should entail. Such limited descriptions provide little basis for evaluating the adequacy of a contractor's work or justification for requested payments. As a result, ADEQ creates an opportunity for vendors to inflate the costs for these services.

- **CASE FOUR - ATTORNEY GENERAL CONTRACTS**

A review of two of ADEQ's intergovernmental agreements (IGA) with the Attorney General's Office identified instances in which ADEQ advanced monies under vague and undefined contract terms.[1] While ADEQ must use the AG's Office for required legal services, sound contract management practices should be extended to IGAs to ensure that services provided under these agreements are meeting expectations within the agreed-upon price.

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1 In addition to the typical legal services provided to most State agencies, ADEQ also contracts with the Attorney General for services related to its remediation function.

Nationally recognized standards require that services and contract deliverables be clearly defined; yet, in the two IGAs that we examined found that the Department advanced the AG more than $344,000 under vague contract terms.

For example, no provisions were included that required the AG to specify how monies were being spent.

These deficiencies have caused problems for the Department in the past. In one case, ADEQ's failure to insist that costs be adequately detailed was one reason the Environmental Protection Agency decided it would no longer advance payments for legal costs associated with the State's remediation effort.

A strong Contracts and Procurement section could have helped avoid this by insisting on clearer contract terms before these IGA's were sent to upper management for signature. Although this section is accountable for the adequacy of all Department contracts, the contract specialist assigned to oversee IGAs with the AG was unwilling to challenge a contract's inadequacies once his superiors had approved it.

Several Critical Steps Are Needed To Improve ADEQ's Contract Management Function

As the cases above demonstrate, the Department's failure to adhere to accepted contracting standards has been costly. Basic, but critical steps, such as developing policies and procedures and staff training, are needed to address contract deficiencies. The Department will also need to establish a greater role for its Contracts and Procurement section to assure a more coordinated contracting effort. The State Procurement Office should assist ADEQ in its effort by providing needed guidance and closer monitoring.

- PROCEDURES AND TRAINING - Agency staff with contract responsibilities are largely unaware of the requirements needed to obtain quality services, and therefore, do not always follow sound procurement practices. To address this, the Department needs to develop policies and procedures to guide its contracting process. Specifically, policies and procedures are needed: 1) to define the contract responsibilities of all Agency personnel, and 2) to discuss legal requirements and national standards for all phases of the contracting process. To be effective, ADEQ must disseminate these policies and procedures to all staff involved in contracting and provide training needed to ensure they are familiar with them.

- CONTRACTS AND PROCUREMENT SECTION - In addition, the Department needs to strengthen the role of its Contracts and Procurement section. Specifically, the section staff should work with the individual program personnel to define service requirements and evaluate contract proposals. Furthermore, section staff should assist program staff in monitoring vendor performance through periodic reports and meetings with program staff and contractors. Greater involvement by the Contracts and Procurement section should facilitate a more efficient contracting process by adding consistency and coordination.

- THE STATE PROCUREMENT OFFICE - SPO should assist in the Department's efforts to upgrade the contract process by providing the guidance necessary to ensure that needed changes are effectively implemented. Specifically, the Office should review the adequacy of policies and procedures developed by ADEQ and help train Agency staff.

  In addition, SPO should review ADEQ's performance to determine if any changes are needed in the Department's purchasing authority. SPO has delegated unlimited purchasing authority to ADEQ under the Arizona Procurement Code. However, SPO retains responsibility for this function and may withdraw or modify the delegation if necessary. Our review indicates that ADEQ's purchasing and contract management has not fully protected the State's interests.

RECOMMENDATIONS

1. To improve its contracting process, ADEQ should:

   - develop and distribute policies and procedures outlining steps for managing contracts to all relevant Agency personnel

   - provide necessary training to all relevant Agency personnel

   - increase the involvement of its Contracts and Procurement section to ensure and enforce compliance with State laws and national standards pertaining to contracts.

2. The State Procurement Office should assist in the Department's efforts to upgrade the Agency's contract process. Specifically, the State Procurement Office should review ADEQ purchasing policies and procedures developed in response to Recommendation 1 to ensure that they adequately protect the State's interests. If SPO determines that the proposed changes are not adequate to correct the problems identified in this Finding, it should consider rescinding or limiting ADEQ's unlimited delegation of purchasing authority.

FINDING IV

ADEQ'S EDP FUNCTION NEEDS MORE EFFECTIVE MANAGEMENT

Ineffective management is preventing ADEQ from taking significant advantage of its electronic data processing (EDP) technology. Our review showed that attempts to improve information management by investing in EDP have been poorly handled. ADEQ's efforts are hampered by a fragmented management structure incapable of effective Agency-wide oversight.

ADEQ Has Been Unable To Implement Effective EDP Systems

Department attempts to better manage its information resources by investing in EDP technology have been largely ineffective. Anticipated improvements have been offset by the Agency's inability to adequately plan and coordinate its EDP effort.

Like many private and public organizations, ADEQ depends on an adequate flow of information to carry out its various responsibilities. For example, mandated regulatory activities in its water, air, and waste management programs can only be conducted by maintaining, updating, and evaluating information on an estimated 40,000 locations, and pollution sites. Even seemingly routine administrative activities, such as processing fees paid by the regulated community, can only be accomplished through extensive data gathering and recordkeeping.

Information management through EDP - Managing its information resources has traditionally been troublesome for ADEQ. A task force set up in 1991 to address concerns in this area reported that *"The inability of managers and staff to access pertinent information in a quick and easy manner has repeatedly paralyzed the decision-making process."*

ADEQ has made an effort in recent years to improve information management at the Agency by enhancing its EDP capabilities. For example, the Department has purchased 450 personal computers (PC), developed new data management systems

(including a high-powered mini-computer with multi-faceted capabilities), acquired numerous supporting software packages, and installed ten Local Area Networks, called LANs.[1]

The Department hoped these activities would help create an extensive EDP infrastructure by: 1) improving employee access to relevant program data, 2) facilitating data sharing and integration within and across program lines, 3) providing useful information on program performance, and 4) eliminating redundant information gathering.

Ineffective implementation of EDP systems - For the most part, the benefits ADEQ hoped to achieve through its recent investment have not materialized. For example, despite spending approximately $1.8 million, the Department has not effectively utilized the capability of its new LAN technology.[2] The ten LANs were supposed to improve efficiency through increased information sharing and data integration, and by reducing unnecessary data gathering. These objectives have not been met to any significant degree. Information continues to be largely gathered, maintained, and used in isolation, either on individual PCs, or in manual filing systems scattered throughout the different program areas.

Consequently, access to relevant program information continues to be cumbersome, and the potential for redundant data gathering remains exceedingly high. For example:

- Separate databases are being unnecessarily maintained on personal computers by three units in the Office of Waste Programs due to their failure to coordinate data acquisition and information sharing. For example, at least two of these units routinely gather and use information relating to waste facilities, inspections, enforcement actions, and case resolution. This duplication of effort could be avoided if a single system was developed and maintained on the LAN for this Office.

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1 A Local Area Network, generally referred to as a LAN, is a group of PCs interconnected via wiring and utilizing a high-performance personal computer called a file server. File servers, which typically have large storage capacities and fast operating speeds, allow software and data to be shared between and among the connected PCs.

By using fiber-optic technology to interconnect its ten LANs, ADEQ has created a powerful data communicating system capable of extensive, Agency-wide data sharing and integration.

2 Costs for LAN technology include: A fiber-optic network, consulting services, and personal computers.

- In another case, a top Agency official expressed frustration that it took the Department three weeks to ascertain a single vendor's compliance history. This lengthy search could have been avoided if the Agency was using the LANs' capability for integrating the Department's various sources of information.

- Finally, since provisions were never made to maintain relevant program information on the LANs, an ADEQ employee was required to conduct an extensive and time-consuming search of the many databases and manual filing systems in order to compile the State's biennial Water Quality Assessment report for the Environmental Protection Agency (EPA). The report took more than a year to complete and required the Department to seek an extension from the EPA.

The Department's failure to effectively utilize its LAN technology is indicative of the Agency's overall lack of adequate planning and systems development procedures. As shown by the cases described above, the Department has not made a systematic effort to identify and bring information of common and cross-functional interest to its staff.

This kind of omission is possible because EDP systems are implemented in isolation, with no adequate Agency-wide system of policies, standards, and controls to ensure the effectiveness and reliability of its information technology.

Questionable planning, systems development, and maintenance strategies have repeatedly marred Department efforts to implement EDP systems. For example:

- **THE REVENUE MANAGEMENT SYSTEM (RMS)** - Apparently intended to facilitate the collection of all fees assessed by the Agency, development of this system was discontinued after entering into several contracts totaling more than $80,000. The project was suspended when Agency officials became uncertain of RMS's ability to perform needed functions. ADEQ officials are now reassessing Agency needs to decide whether to resume work on the RMS, or develop a new system altogether. In the meantime, the Department continues to use manual ledgers and simple Lotus spreadsheets to track Agency revenues.

- **THE AQUIFER PROTECTION PERMITS (APP) SYSTEM** - Intended to standardize and simplify the process of issuing and monitoring various permits overseen by the Agency's APP program, further development of this system has been halted indefinitely due to the Agency's inability to arrange sufficient funding.

  Consequently, despite an investment of over $75,000, the system is unable to perform many of its intended functions. For example, only three of the seven types of permits issued by the program can be processed by the system. Likewise, other planned objectives, such as tracking the status of permit applications, and monitoring vendor compliance with permit requirements,

cannot be performed using the APP system. Instead, program staff are performing some of these functions on other databases and electronic spreadsheets.

Additionally, the decision to use nonstandard software means that any design modifications required to the system can only be made with outside assistance. Similarly, the choice of software may limit the potential for integrating the APP system with other data systems in the Department.

- WATER QUALITY POLLUTION DATABASE - Intended to help track the compliance of facilities with water quality permits, problems related to data reliability and system maintenance have negated this system's utility. According to one knowledgeable user, the database is "broken." The system was never fully tested and is not capable of producing all desired results. We also found the system is not being adequately maintained. Data is incomplete and inaccurate, and poor controls over system modifications and changes to data files have compromised the database's integrity.

Changes In EDP Management Are Needed To Improve The Delivery Of EDP Services

The problems ADEQ has experienced with its information technology are due to the lack of coordinated executive-level involvement in managing the Agency's EDP function.

A decentralized approach to EDP management has dispersed responsibilities for providing EDP services among and within ADEQ's various subdivisions. Systems are developed and maintained based on priorities established and resources available within each subdivision. Separate funding contributes to this independence and results in minimal Agency-wide direction.

Fragmented responsibility - Although decentralization of EDP services can be a viable management strategy, ADEQ has been unable to institute an adequate mechanism for ensuring needed Agency-wide coordination, cooperation, and guidance among and within its various subdivisions. For example:

- ADEQ's Office of Administration has an Information Resource Management unit (IRM) dedicated to EDP. In the past, this unit has assumed responsibility for EDP services within the Department. However, due to conflicts with other Agency subdivisions, the role of IRM has become unclear. Groups such as IRM frequently play a prominent lead or support role in the administration of an organization's EDP. The Department's IRM, however, has not been able to gain program acceptance in either capacity, leaving the Agency without this

traditional means for coordinating EDP activities.

An EDP committee formed in 1991 was likewise unable to win the support needed to facilitate a coordinated EDP direction within the Department. The committee, which was led by the Deputy Director and consisted of mid-level staffers from various parts of the Agency as well as staff from the IRM unit, had ambitious plans for guiding the Department's EDP effort. However, the committee lacked proper Agency-wide support and had little impact. It was disbanded earlier this year.

A key result of ADEQ's inability to find a viable means for coordinating its EDP effort is that the Agency has not developed an adequate system of policies, standards, and controls, which is crucial to effective EDP management. This deficiency has directly contributed to the problems cited.

Information services at the Department will continue to suffer until the Agency's executive management team takes a more active leadership role in this area. Strong executive commitment is critical to any successful EDP effort. ADEQ's problems with EDP have perpetuated because top Agency officials have not made a concerted effort to address them.

To begin to address its EDP problems, the Department must create a viable executive-level Steering Committee to guide the development of the Agency's EDP technology. To avoid the failings of the previous EDP committee, this committee should be composed, at a minimum, of executive-level staff, senior program managers, and key EDP personnel.

In addition, the ADEQ Director must demonstrate strong support for the new Steering Committee by directing all units to cooperate with the Committee and using its recommendations as the basis for coordinating EDP at the Department. The Director may also consider providing the Committee with its own funding, which would allow it to manage and coordinate EDP projects with Agency-wide implications.

Once the committee is in place and executive support is established, ADEQ will need to embark on a number of critical activities. We recommend the following as priorities:

- DEVELOPMENT OF A STRATEGIC PLAN - A framework for guiding the ADEQ's investment in information technology is needed. A strategic plan would address this deficiency by outlining the Department's goals and objectives, as well as its human and technical resource needs, and establishing the generic criteria for achieving those ends.

- DEVELOPMENT OF FORMAL POLICIES AND PROCEDURES - Once a plan is in place,

detailed methods for implementing the Agency's strategy will be required. Policies and procedures will serve this purpose by setting standards and controls for critical factors such as systems development and maintenance, security, and disaster recovery.

- DEFINITION OF ORGANIZATIONAL ROLES - Responsibilities are dispersed among and within the ADEQ's four major subdivisions, with no clear separation of duties. Establishing clearly defined roles will help prevent uneven administration of policies and procedures by establishing clear-cut lines of authority and accountability.

Our recommendations are not intended to create a centralized EDP hierarchy. Given the decentralized nature of EDP at ADEQ, such an arrangement would not be workable. Rather, these recommendations will help create a balance between the needs of individual program areas and the Agency as a whole by establishing a framework from which EDP systems can be effectively implemented and integrated.

RECOMMENDATIONS

1. ADEQ should create an executive-level Steering Committee in order to ensure adequate leadership of its EDP function. The Committee should be given sufficient funding to allow it to manage and coordinate EDP projects with Agency-wide implications.

2. ADEQ should make the following activities top priorities:

   a) The development of a strategic plan to outline the Department's goals and objectives, and establishment of the generic criteria for achieving those goals.

   b) The development of formal policies and procedures to set standards and controls that address critical factors, such as systems development and maintenance, security, and disaster recovery.

   c) The definition of organizational roles to establish clear lines of authority and accountability and prevent uneven administration of policies and procedures.

   d) The allocation of separate funding sources for Agency-wide EDP objectives.

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

FIFE SYMINGTON, GOVERNOR
EDWARD Z. FOX, DIRECTOR

August 17, 1993

Douglas R. Norton
Auditor General
State of Arizona
2700 N. Central Ave., Suite 700
Phoenix, Arizona 85004

Dear Mr. Norton:

Thank you for the opportunity to respond to the Management Audit Report (the Report) on the Arizona Department of Environmental Quality (ADEQ). Overall the ADEQ Management Team and I feel that the report has correctly identified many areas which need improvement and your recommendations (where they are provided) will assist us in making needed changes. There are, however, some areas where:

- We are concerned about the oversimplification of issues;
- We feel the report fails to identify many of the problems as historical; and,
- We feel the report fails to recognize the efforts underway to address those problems.

Specifics regarding the above statements will be discussed in greater detail in our comments to each finding.

Within six months of taking this position in July of 1991, I recognized that many of the most basic managerial infrastructure systems did not exist at ADEQ. I remember asking where the Agency Policy and Procedure Manual was kept and being told that one was not available. Moreover, in 1991, when interviewed, many of ADEQ's personnel (including management) stated that they were uncertain about the purpose of ADEQ's programs and their individual roles in implementing those programs. Within my first year I acknowledged in speeches to the public and to the Legislature that it would be easier to create a department from scratch than to analyze the existing systems, design new systems and impose them on a traditional bureaucracy. Again, your Report is helpful to confirm our observations and will assist us in providing direction for change.

Without making excuses, I think it is important to note that ADEQ is a young agency having been created in 1987 with 120 employees. Within five years the agency has expanded to over 600 full-time employees, 60 separate programs and has been subject to considerable political and organizational turmoil as evidenced by the turnover in the agency's leadership (five directors in six years). Unfortunately during this turmoil the agency was faced with balancing the need to focus its resources on the environmental crisis de jure or implementing sound managerial systems. While we know that the political fires must be fought, it is unfortunate that the past senior management did not also spend the necessary resources to establish the fundamental infrastructure to run the agency on a day-to-day basis.

Acknowledging the management systems crisis at the Department is only a first step in solving the problem. In order to correct the problems, it is necessary to analyze the present system, develop improved systems and then implement them. As you are aware from your role as Auditor General, this is not an easy task even when you have the trained personnel of your office. It is more difficult when the agency's budgets have been reduced and resources for the management analysis competes with implementation of the programs which protect public health and the environment.

In any case, this administration is committed to improving ADEQ's management systems. We have implemented an agency-wide Business Process Improvement (BPI) effort to direct this change. This effort which is the work of staff and external customers is intended to define the existing agency processes and identify those areas which can be improved through changing the way we do business and/or by implementing policies and procedures. The BPI process will not only look at individual programs but also the cross-program functions where management systems often break down.

As I previously stated, ADEQ takes no exception to the four management problems described on page three of the Report. We identified these problems early in this administration and continue to work to address them as indicated in our specific comments to the findings which follow:

FINDING I: ADEQ HAS BEEN SLOW TO IMPLEMENT COST-RECOVERY PROGRAMS

When this administration arrived in mid-1991, they found no effective cost-recovery capability within ADEQ. Within the first few months, the new administration embarked upon building the tools necessary to perform aggressive cost recovery. Since that time:

- Files were reviewed for necessary background information;
- A labor distribution system was developed. Proper distribution of staff time to specific projects, sites and activities is fundamental to effective costs recovery. Recognizing this, ADEQ contracted with KPMG Peat Marwick to acquire and refine the labor distribution component of the Uniform State Accounting System (USAS) to support our cost recovery program. That system is available for use State-wide, and today, other agencies are considering following ADEQ's lead; and,
- Cost recovery packages were assembled.

These efforts have resulted in significant progress in cost recovery and has set in place the procedures and infrastructure necessary to continue aggressive efforts. As a result, actual cost recovery rates in FY 1993 doubled over the prior fiscal year.

It is important to note, however, that development of a cost recovery package does not mean immediate revenue generation will occur. One such case is the $1.2 million settlement with Nucor, which the Report failed to recognize. While the District Court has approved the settlement, a third party has challenged it, delaying payment. While we are confident of ultimately winning the appeal, actual collection of the monies will not occur in the near future. It is also important to recognize that negotiations often take considerable time and result in less than the initially specified amount. However, negotiations may be more profitable than expensive protracted litigation which may go on for years. We are also developing a model consent decree to facilitate negotiations with responsible parties.

ADEQ recognizes the need to better recover permitting and similar costs throughout the Department. For this reason, we:

- Performed an extensive analysis on the costs associated with Aquifer Protection Permits (APP) in June 1991 and adopted a fee rule in January 1992 which established an hourly rate of $31.84, with caps by category, to recover the direct costs associated with the APP permitting program. While we had attempted to adopt a rule to recover "full" costs, concerns on the impact of the increased fees to industry resulted in the passage of S.B. 1271 which limited cost recovery to direct costs and imposed fee caps by permit category.

- Conducted an extensive Workload Analysis (WLA) in January and February, 1993, to document existing air permit program costs and to implement new permit and inspection fee authority. As a result of that work, ADEQ has identified an hourly rate for permit processing of $53, up from the previous rate of approximately $21 per hour, and imposed that new rate on July 1, 1993. In addition, the WLA provided the basis for development of a new system of permit, inspection and emission-based fees. Those draft rules were approved by the Governor's Regulatory Review Council in June 1993, and are currently undergoing public comment.

- Issued a Request for Proposals to obtain a contractor to conduct workload analyses and assist in the setting or revising fees for the Aquifer Protection Permit, Solid Waste, Special Waste, and Plan Review Programs. After the analysis, ADEQ will have to initiate rule-making before collecting the fees.

FINDING II: ADEQ CAN COLLECT AN ADDITION $396,000 ANNUALLY IN FEES

ADEQ recognizes that historic fee collection practices need improvement. Past mistakes, however, should not color the review of contemporary practices. This audit reflects past practices which have been improved during this administration, and in part is not contemporary with current operations.

- In April 1991, ADEQ centralized fee collection activities to improve compliance; ensure checks and balances over receipts and deposits; and, document proper accounting procedures.

- ADEQ put in place a program of systematic follow-up for all validated delinquent accounts in FY 1993. For the last six months we have been sending second billings to 100% of the validated non-payors. Second billings are, however, only one aspect of the necessary follow-up. In addition, ADEQ addressed mathematical errors, either in favor of the State or the payor; demand letters for additional information; letters addressing questions asked by the rate payor; and, third letters of collection. We are documenting procedures to continue these aggressive billing practices.

We concur with the recommendation to seek penalty authority for unpaid billings and have incorporated the requirement into the proposed ADEQ Omnibus Environmental Quality bill for this Legislative session.

We agree that an internal audit unit is important to the functioning of the Agency, and we established the ADEQ Office of Management, Budget and Audit in 1992. While fiscal constraints in FY 1993 prohibited us from implementing the audit function, we have completed preliminary interviews for the audit positions and anticipate filling at least one of the audit positions within the next 30 days.

With regards to the recommendation to utilize the services of an outside collection agency, ADEQ lacks resources to pay for this proposed new function. We will, however refer collections to the Attorney General who will be exploring the legality of entering into a contingency relationship which would allow the private collection entity to retain a portion of the monies due the State for their services.

FINDING III: CONTRACT MANAGEMENT AT DEQ IS POOR

ADEQ concurs that our contracts could be better written and could benefit from greater oversight. We are receptive to the recommendations that will improve these functions. ADEQ concurs that responsible contract management is one of the Agency's principle responsibilities. The interests of the State must always be protected.

We acknowledge that the waste tire procurement process could have been improved. However, given the market for used tires, it is questionable that we would have saved $1 million.

We disagree, however, with the Report's conclusion that as part of the Modular Furniture Contract, ADEQ purchased unneeded furniture. New chairs had been scheduled for later acquisition as part of the conversion from conventional desks to modular work stations. At the time that the protest was received, ADEQ, the State Procurement Office (SPO) and the Attorney General concurred that, while the State was likely to prevail it would be in the State's best interest to settle the protest through the accelerated purchase of chairs. In the absence of a settlement, ADEQ's move to its new facility would have been delayed, incurring significant costs ($350,000).

We further disagree with the assertion that the Agency is presently neglecting its duty to manage contracts well. The Report does not reflect on-going activities initiated by this administration to improve contract management. The Procurement Section is:

- Currently drafting procedures for program staff to use in developing and evaluating RFP's and administering contracts;
- Negotiating with the University of Phoenix to adapt their seven semester-long courses on public procurement and contracting to quarterly seminars for in-house training; and,
- Working on improving our relationship with the SPO by outstationing one of our Contract Specialists at SPO on a six-month assignment.

FINDING IV: ADEQ'S EDP FUNCTION NEEDS MORE EFFECTIVE MANAGEMENT

Improving information management for better communication and decision-making has been one of the highest priorities of this administration. ADEQ is committed to expanding the usability of its local area network (LAN) approach to data management.

Eighteen months ago, ADEQ had no Department-wide system to transmit and utilize data. No Department-wide messaging capability existed. Less than half of our staff had dedicated personal computers (PC's), and many were forced to share work stations. Today, building on the foundation set by

ADEQ's Electronic Data Processing (EDP) Committee which set the standards for the EDP hardware configuration for the new facility:

- Almost all staff have dedicated PC's;
- Almost all of the PC's are part of LAN's (with the exception of the Flagstaff and Tucson Offices);
- Field personnel have remote access capability; and,
- Staff throughout the Agency are able to electronically access EPA and other databases, and libraries.

Additionally, ADEQ has undertaken several initiatives to improve communications and data integration, including:

- Development of a facilities identification database which ties facilities in all programs with locational data and the financial system;
- Establishment of hardware and software standards and price lists which are available on the central LAN;
- E-Mail capabilities and access to EPA and other sources through Internet;
- On-going development of relational databases in the Office of Water Quality (drinking water and groundwater) and the Office of Air Quality (permits, compliance and inspections); and,
- A database inventory completed in September, 1992, which identifies over 90 different databases.

ADEQ is proud of these accomplishments in building this level of capability in a relatively short time. Unfortunately, the Report does not reflect any of the efforts currently underway to accomplish this goal. Is our work complete? Of course not. We readily recognize that there is fragmentation in our information management systems (databases), that much additional work is needed to make full use of the capability and that better Agency-wide direction is necessary. We are working toward that approach and have convened an internal and external customer advisory team to help us develop an EDP strategic plan, policies, and define organizational roles. Experts from EPA and other external customers will assist us in developing this plan which will be submitted to the ADEQ Management Team for approval. We appreciate and accept your offer to assist us in this important effort.

I believe that we have created a new paradigm on how agencies and the Auditor General work together in order to benefit the citizens of Arizona. Your trained management analysts have provided needed insight into ADEQ and I look forward to your assistance in providing greater protection to public health and the environment through more efficient and effective implementation of ADEQ programs.

Very truly yours,

Edward Z. Fox
Director

c: Bill Wiley, Deputy Director, ADEQ
Bill Thomson, Director, Performance Audit Division, Auditor General's Office