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August 4, 2011

Monica Bowers, Deputy State Auditor
Office of the State Auditor
200 E. 14th Avenue
Denver, CO 80203

Dear Ms. Bowers:

The attached document is the Department's status update on implementing recommendations contained in the July 2010 Anhydrous Ammonia Program Performance Audit.

Please feel free to contact me if you have any questions regarding the implementation of the recommendations.

Respectfully,

A handwritten signature in black ink, appearing to read "S. Bornmann", written over a horizontal line.

Steve Bornmann, Director
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AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: Anhydrous Ammonia Program Performance Audit

AUDIT NUMBER: 2058

DEPARTMENT/AGENCY/ENTITY: Department of Agriculture Inspection and Consumer Services Division

DATE: July 2010

SUMMARY INFORMATION

Please complete the table below with summary information for all audit recommendations. **For multi-part recommendations, list each part of the recommendation SEPARATELY.** (For example, if Recommendation 1 has three parts, list each part separately in the table.)

Recommendation Number <i>(e.g., 1a, 1b, 2, etc.)</i>	Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Original Implementation Date <i>(as listed in the audit report)</i>	Implementation Status <i>(Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable)</i> Please refer to the attached sheet for definitions of each implementation status option.	Revised Implementation Date <i>(Complete only if agency is revising the original implementation date.)</i>
1a	Agree	January 2012	Implemented	
1b	Agree	January 2012	Implemented	
2a	Agree	January 2012	Implemented	
2b	Agree	July 2012	Implemented	
2c	Agree	July 2012	Implemented	
3a	Agree	January 2011	Implemented	
3b	Agree	March 2011	Implemented	
3c	Agree	January 2011	Implemented	
3d	Agree	July 2012	Partially Implemented	
3e	Agree	February 2011	Implemented and Ongoing	
4a	Agree	January 2011	Implemented	
4b	Agree	January 2011	Implemented	

Recommendation Number <i>(e.g., 1a, 1b, 2, etc.)</i>	Agency's Response <i>(i.e., agree, partially agree, disagree)</i>	Original Implementation Date <i>(as listed in the audit report)</i>	Implementation Status <i>(Implemented, Implemented and Ongoing, Partially Implemented, Not Implemented, or No Longer Applicable)</i> Please refer to the attached sheet for definitions of each implementation status option.	Revised Implementation Date <i>(Complete only if agency is revising the original implementation date.)</i>
4c	Agree	January 2011	Implemented	
5	Agree	July 2012	Not Implemented	
6a	Agree	January 2011	Implemented	
6b	Agree	January 2011	Implemented	
7a	Agree	July 2012	Partially Implemented	
7b	Agree	January 2011	Implemented	

DETAIL OF IMPLEMENTATION STATUS

Recommendation #: 1

Agency Addressed: Inspection and Consumer Services Division

Recommendation Text in Audit Report:

The Inspection and Consumer Services Division should maintain a complete tank inventory by ensuring that owners comply with the statutory requirement that all anhydrous ammonia tanks in the state be registered annually. Additionally, the Division should work with the Agricultural Commission to:

- a. Define “use status” categories for anhydrous ammonia tanks and require owners to report each tank’s use status during the registration process.
- b. Align the registration fee structure to minimize the financial impact on owners from registering tanks that will not be in use.

Agency’s Response (*i.e., Agree, Partially Agree, or Disagree*): Agree

Agency’s Written Response in Audit Report:

The Division agrees that it should maintain a complete tank inventory by ensuring that tank owners comply with statutory requirements to register all of their tanks annually. The Division will work with the Agricultural Commission to adopt rules defining registration classes for tanks that reflect their use status. A fee structure will be developed to reflect the use status of the tanks.

Agency’s Current Comments on Implementation Status of Recommendation:

RECOMMENDATION IMPLEMENTED. The Division required tank owners to register all of their tanks in 2011, regardless of use status, and now has a complete tank inventory. The Agricultural Commission approved the following fees and fee categories for registration of anhydrous ammonia tanks: \$125.00 site fee, \$5.00 for “in use” nurse and applicator tanks and \$0.00 fee for “not in use.”

Recommendation #: 2

Agency Addressed: Inspection and Consumer Services Division

Original Recommendation in Audit Report:

The Inspection and Consumer Services Division should improve its electronic licensing system to ensure its ability to track and report on the population of anhydrous ammonia tanks in the state. Specifically, the Division should:

- a. Assign anhydrous ammonia tanks a unique statewide tank identification number during the registration process and enter this information into the licensing system. The Division should explore and consider viable options for physically marking anhydrous ammonia tanks with the Division-assigned, unique statewide tank identification number via metal tags or some other means.
- b. Capture bulk tank information and track all tanks' registration and use status in separate data fields. The Division should also consider restricting Program staff's ability to delete tank records without supervisory approval.
- c. Review and correct system coding and query functions to ensure that queries of registration data produce accurate and reliable registration counts and tank inventory reports, including reporting all business locations, bulk tanks, nurse tanks, and applicators that are registered during any portion of the registration period.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree

Agency's Written Response in Audit Report:

- a. The Division agrees that its electronic registration program needs to be improved to allow the Division to track and report on the population of anhydrous ammonia tanks, and the Division will develop a system to assign each tank with a unique identification number. This number will be a combination of the unique business number assigned to each site and the tank identification number assigned by the tank owner. This number system will result in a unique identification number for each tank. The Division will explore and consider viable options for the physical marking of anhydrous ammonia tanks with the unique identification number.
- b. The Department has commenced a complete revision of the Centralized Demographic Database (CDD) system, which includes the licensing and inspection databases for all of the Department's licensing programs. A complete rewrite of the Division's Anhydrous Ammonia Program components will be included in this project. As part of this process, the Division will ensure that the new system captures bulk tank information and tracks all tanks' registration and use status in separate data fields. The Division will also reassess users' access rights in the system.

- c. The Division will modify the existing database to improve the data and reports available to management by January 2011. The Division will also reassess the query and reporting functions for the Anhydrous Ammonia Program as part of the redesign of the Department's Centralized Demographic Database (CDD), which is expected to be completed by July 2012.

Agency's Comments on Implementation Status of Recommendation:

- a. RECOMMENDATION IMPLEMENTED. The Division developed a system, and has assigned a unique identification number to each tank registered in Colorado. The Department has had discussions with industry regarding physically marking the tanks with the unique number.
- b. RECOMMENDATION IMPLEMENTED. The Division's tank registration database has separate fields to track each tank by their unique ID number and use status. The Division has established a policy to define conditions that permit a tank record to be deleted.
- c. RECOMMENDATION IMPLEMENTED. The Division now has access to improved data and reports. The new licensing system will be designed with improved reporting functions for the Anhydrous Ammonia program.

Recommendation #: 3

Agency Addressed: Inspection and Consumer Services Division

Original Recommendation in Audit Report:

The Inspection and Consumer Services Division should ensure that inspectors apply anhydrous ammonia tank inspection procedures appropriately and consistently and that its anhydrous ammonia tank inspection program maximizes inspection coverage given available resources. Specifically, the Division should:

- a. Develop a written policies and procedures manual governing anhydrous ammonia tank inspections. At a minimum, such policies and procedures should establish clear criteria for passing and failing tanks, as well as provide instruction for completing inspection reports accurately, completely, and consistently. The Division should update the written policies and procedures manual annually.
- b. Strengthen the routine review of completed tank inspection reports for adherence to established inspection policies and procedures. The Anhydrous Ammonia Program administrator and/or the inspectors' direct supervisor, as appropriate, should sign off on completed tank inspection reports.
- c. Establish inspection coverage goals and use these goals to target the routine inspection program. The Division should adopt a cyclical, risk-based approach whereby all tanks will be inspected at least once within a certain time frame and higher-risk owners will be inspected on a more frequent basis.
- d. Improve data management systems and practices to centrally compile, track, and analyze tank-level inspection data over time. Inspection data should be routinely analyzed to monitor inspection coverage and to identify patterns and trends in inspection results.
- e. Reassess its allocation of inspection resources and make adjustments, as appropriate, to ensure that established inspection coverage and other Program goals are being met, once the risk-based inspection approach is implemented and inspection coverage data are available.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree

Agency's Written Response in Audit Report:

- a. The Division currently utilizes industry standard inspection procedures developed by The Fertilizer Institute. We agree that the Division should develop a complete inspection manual with inspection procedures, criteria for passing or failing tanks and guidance on completing reports.

- b. The Division agrees that the routine review process for submitted reports could be improved. The Division believes that the implementation of Recommendation 3a will eliminate many of the reporting concerns that the audit discovered. The review will be strengthened by having the Program administrator and/or the inspector's supervisor routinely review the inspection reports, as necessary, to ensure that reports are being completed in compliance with inspector guidance and inspection policies.
- c. The Division will develop inspection goals and establish a risk-based schedule for tank inspections.
- d. The Department has commenced a complete revision of the Centralized Demographic Database (CDD) system, which includes the licensing and inspection databases for all of the Department's licensing programs. A complete rewrite of the Division's Anhydrous Ammonia Program components will be included in this project. As part of this process, the Division will ensure its ability to compile, track, and analyze tank-level inspection data over time. The Division will routinely analyze inspection data to monitor inspection coverage and to identify patterns and trends in inspection results.
- e. The Division continually reassesses its inspection needs and resources and adjusts resource allocations as necessary to meet the Division inspection goals.

Agency's Comments on Implementation Status of Recommendation:

- a. RECOMMENDATION IMPLEMENTED. An inspection manual was designed and deployed to inspectors in September 2010. The manual has inspection procedures, criteria for passing and failing tanks, and guidance for the uniform completion of forms.
- b. RECOMMENDATION IMPLEMENTED. The program manager reviews and approves all of the reports when they have been submitted to the office.
- c. RECOMMENDATION IMPLEMENTED. The Department has developed an inspection program that establishes a risk-based schedule for tank inspections.
- d. RECOMMENDATION PARTIALLY IMPLEMENTED. The Division has developed a system to monitor and track the results of inspection reports submitted to the office in hard copy. The Department's new licensing and inspection database system is in development. An anhydrous ammonia inspection module, which will allow the Division's inspectors to submit tank inspection reports electronically, is scheduled for completion in the spring. The new inspection reporting system will enhance the Division's ability to compile, track, and analyze tank-level inspection data over time. Full implementation is planned for spring 2012.

- e. **RECOMMENDATION IMPLEMENTED AND ONGOING.** The Department continually assesses its needs and resources to ensure that all program goals are met.

Recommendation #: 4

Agency Addressed: Inspection and Consumer Services Division

Original Recommendation in Audit Report:

The Inspection and Consumer Services Division should hold anhydrous ammonia tank owners accountable for correcting tank safety violations noted during inspections by:

- a. Establishing a time frame for owners to submit an attestation certifying that each failed tank has either been fixed or taken out of service for the year, developing procedures for identifying and following up with owners who do not submit the attestation within the established time frame, and maintaining all attestation forms in inspection files.
- b. Building a routine follow-up component into its inspection program. Follow-up inspections should be conducted using a risk-based approach.
- c. Developing written guidelines and procedures on how and when to issue civil penalties and/or cease-and-desist orders to ensure that such enforcement actions are applied consistently and appropriately. The Division's inspectors should issue civil penalties and/or cease-and-desist orders in accordance with these guidelines and procedures for tanks found to be out of compliance with minimum safety requirements.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree

Agency's Written Response in Audit Report:

- a. The Department will establish a time requirement for the owner to submit the certification that failed tanks have been repaired or taken out of service, and will implement a tracking procedure to follow up with tank owners that do not return their certifications. Completed attestation forms will be maintained in the Division's inspection files.
- b. The Division will develop a risk-based follow-up procedure for failed inspections.
- c. The Division agrees that anhydrous ammonia tank owners should be held accountable for correcting tank safety violations noted during inspections. The Division will develop written guidelines and procedures for taking appropriate enforcement action when violations of the safety requirements are encountered.

Agency's Comments on Implementation Status of Recommendation:

- a. RECOMMENDATION IMPLEMENTED. The anhydrous ammonia tank owners are required to submit the certification that failed tanks have been repaired or taken out of service within a two-week time frame. The Division has a tracking and follow-up system in place for delinquent reports.
- b. RECOMMENDATION IMPLEMENTED. A risk based follow-up system has been implemented.
- c. RECOMMENDATION IMPLEMENTED. Guidance has been developed and the field staff is following procedures for appropriate enforcement of violations.

Recommendation #: 5

Agency Addressed: Inspection and Consumer Services Division

Original Recommendation in Audit Report:

The Inspection and Consumer Services Division should work with the General Assembly, the Agricultural Commission, and other stakeholders, as appropriate, to develop and implement incident reporting requirements for anhydrous ammonia's use as an agricultural fertilizer.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree

Agency's Written Response in Audit Report:

The Department agrees there is a need for an incident reporting requirement, and will work with the appropriate parties to develop and implement such requirements.

Agency's Comments on Implementation Status of Recommendation:

RECOMMENDATION NOT IMPLEMENTED. The Legislative Audit Committee developed and introduced legislation to require anhydrous ammonia incident reporting in the 2011 session. This legislation, SB 11-017, did not pass out of the Senate Agriculture and Natural Resources Committee. During the hearing, the Department was instructed by the Senate Agriculture and Natural Resources Committee to work with stakeholders to develop reporting requirements. The Department met with several stakeholders at the Agriculture Council meeting on July 15, 2011. The stakeholders voiced their opposition to any reporting requirements in addition to the current requirement to report releases the Colorado Department of Public Health and Environment (CDPHE). The stakeholders recommended that the Department enter into a Memorandum Of Understanding with CDPHE to receive information regarding the anhydrous ammonia releases reported to them. Without stakeholder support, the Department is hesitant to try to implement any type of incident reporting, outside of the MOU with CDPHE. The Department will explore a MOU with CDPHE, and will investigate future releases reported by CDPHE to determine if further pursuit of incident reporting to the Department is necessary.

Recommendation #: 6

Agency Addressed: Department of Agriculture and Inspection and Consumer Services Division

Original Recommendation in Audit Report:

The Department of Agriculture and the Inspection and Consumer Services Division should strengthen controls over the cash receipts process for the Anhydrous Ammonia Program by:

- a. Establishing appropriate segregation of duties by restricting Program staff to invoicing tank owners regarding underpayment in registration fees and instructing owners to remit the additional monies owed directly to the cashier in the Department's main office. Program staff should also forward a copy of the invoice letter to the cashier as a notice that an additional payment is forthcoming.
- b. Requiring inspectors to remit all payments collected in the field directly to the cashier in the Department's main office. Inspectors should continue to be assigned prenumbered receipt books with triplicate copies. The original receipt should be provided to the tank owner, one receipt copy should be forwarded with the payment to the cashier, and one receipt copy should remain in the receipt book. Department staff should track and reconcile inspectors' receipt books to amounts deposited on a routine basis and follow up on any anomalies.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree

Agency's Written Response in Audit Report:

- a. The Department and Division agree with this recommendation, and have already implemented procedures to strengthen the cash receipt controls by changing the invoice letter to instruct owners to remit the additional monies owed directly to the Department's cashier. Additionally, Program staff forward a copy of the invoice to the cashier as a notice that an additional payment is forthcoming.
- b. The Department and Division will strengthen cash controls by requiring the field inspectors to forward all cash payments with a copy of the receipt to the cashier's office. The Department will implement a tracking system for receipts issued for cash payments received in the field and reconcile receipt books on a routine basis.

Agency's Comments on Implementation Status of Recommendation:

- a. RECOMMENDATION IMPLEMENTED. This recommendation was implemented before the performance audit was completed.

b. **RECOMMENDATION IMPLEMENTED.** The Department has a policy in place to strengthen cash controls, and has implemented a tracking system for receipts.

Recommendation #: 7

Agency Addressed: Department of Agriculture and Inspection and Consumer Services Division

Original Recommendation in Audit Report:

The Department of Agriculture and the Inspection and Consumer Services Division should work together to ensure the Division's ability to routinely compile, track, analyze, and report on key programmatic data for the Anhydrous Ammonia Program. Specifically, the Department and the Division should:

- a. Identify the specific data needs, system requirements, reporting capabilities, and other functions necessary to effectively manage the Program's registration, inspection, and enforcement processes. Program needs should be communicated to the systems development team to ensure that the new system is designed and developed to support these needs.
- b. Develop interim solutions to achieve better data analysis and reporting for the Program given current system capabilities until the new system can be fully implemented.

Agency's Response (*i.e., agree, partially agree, disagree*): Agree

Agency's Written Response in Audit Report:

- a. The Department has commenced a complete revision of the Centralized Demographic Database (CDD) system, which includes the licensing and inspection databases for all of the Department's licensing programs. A complete rewrite of the Division's Anhydrous Ammonia Program components will be included in this project.
- b. The Department and Division will work together to modify the existing database to improve the data and reports available to management until the new system is implemented.

Agency's Comments on Implementation Status of Recommendation:

- a. RECOMMENDATION PARTIALLY IMPLEMENTED. The Department has commenced a complete revision of the Centralized Demographic Database (CDD) system, which includes the licensing and inspection databases for all of the Department's licensing programs. A complete rewrite of the Division's Anhydrous Ammonia Program components is included in this project, which is scheduled for deployment by spring 2012.

- b. **RECOMMENDATION IMPLEMENTED.** The existing database has been improved and the data and reports available to management are sufficient until the new system is completed.