



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

May 10, 2016

The Honorable John Allen, Chair
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair
Joint Legislative Audit Committee

Dear Representative Allen and Senator Burges:

Our Office has recently completed a 30-month followup of the *Registrar of Contractors* (ROC) regarding the implementation status of the 38 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in July 2013 (Auditor General Report No. 13-04). As the attached grid indicates:

- 13 have been implemented;
- 1 is partially implemented;
- 12 are in the process of being implemented;
- 7 are not yet applicable;
- 2 are no longer applicable; and
- 3 have not been implemented

Our Office will conduct a 42-month followup with the Registrar of Contractors on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ka
Attachment

cc: Jeffrey Fleetham, Director
Registrar of Contractors

Registrar of Contractors

Auditor General Report No. 13-04

30-Month Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: ROC should consistently ensure that complaints are adequately resolved

1.1 The ROC should develop and implement policies and procedures to better ensure that complaints are adequately addressed prior to closing them. These policies and procedures should:

- a. Specify under what circumstances complaints should be closed based on written documentation from the contractor or complainant and/or verbal statements by the complainant indicating that corrective action had been taken;
- b. Specify under what circumstances complaints should not be closed until ROC inspectors conduct follow-up inspections to verify that work has been properly completed; and
- c. Specify the steps the ROC will take if corrective action was not properly completed.

Implemented at 18 months

Implemented at 18 months

Implemented at 18 months

1.2 The ROC should develop and implement policies and procedures to guide its use of consent agreements to discipline licensed contractors when appropriate. These policies and procedures should:

- a. Consider not only the nature of the violation and/or the repeat nature of the violation, but also mitigating and aggravating factors, such as whether the licensed contractor addressed workmanship problems in a timely manner; and
- b. Specify that if licensed contractors who have substantiated violations decide not to enter into a consent agreement, the ROC should proceed with its complaint-handling process by referring these cases to OAH.

Implementation in process

Although the ROC had made some progress on this recommendation through restructuring its complaint process, the ROC's new administration has revised the process. According to the ROC, the majority of complaints it resolves no longer involve consent agreements. The ROC indicated that it will work on developing a new policy that will include disciplinary principles for consent agreements, which it plans to complete by October 2016.

Partially implemented at 30 months

As reported in the initial followup, the ROC was taking action on complaints rather than waiting for the complainant to act. However, according to the ROC, it has further revised its approach and now refers complaints to OAH on its own motion on a more limited basis. The ROC provided three examples of complaints it has referred to OAH on its own motion for issues such as providing contracting services on a suspended license.

Recommendation

Status/Additional Explanation

1.3 The ROC should develop and implement policies and procedures for escalating discipline for contractors with prior complaints that resulted in substantiated violations, to ensure that licensees with multiple substantiated complaints or a history of substantiated complaints receive appropriate discipline.

Not implemented

In 2013, the ROC developed a policy for escalating discipline for contractors with prior complaints that resulted in substantiated violations. However, as of February 2015, the ROC's administration and approach to complaint resolution has changed. According to the ROC, the policy for escalating discipline is used infrequently although it has not yet been officially discontinued.

1.4 The ROC should develop and implement guidelines for determining whether complaints received fall within the statutory 2-year time limit for ROC jurisdiction.

Implemented at 18 months

Finding 2: ROC should streamline complaint-resolution process

2.1 The ROC should expedite complaint resolution by encouraging contractors to address concerns more quickly. Specifically, the ROC should:

- a. Request a statutory change that would allow it to charge fees to cover the costs of processing the complaint if poor workmanship is not repaired prior to issuing a citation;
- b. Develop and implement a mechanism to identify and track costs associated with processing specific complaints if statute is changed to give the ROC permission to charge these costs to contractors; and
- c. Charge licensed contractors who are found to have committed a violation the costs for processing valid complaints if statute is changed to give the ROC permission to do so.

Implemented at 18 months

According to the ROC, it informally approached some legislators about sponsoring this legislation, but had not been successful in finding support for the change. According to the ROC, it is no longer seeking this statutory change, but may seek it in the future.

No longer applicable

See explanation for Recommendation 2.1a.

No longer applicable

See explanation for Recommendation 2.1a.

2.2 The ROC should use complaint-management reports from its data system, develop and implement new reports, or develop and implement other mechanisms, as appropriate, to track and monitor open complaints.

Implemented at 18 months

Recommendation

Status/Additional Explanation

2.3 The ROC should develop and implement time frames for completing the key steps in its complaint-handling process. The time frames that the ROC should develop and implement include but should not be limited to:

a. Time frames for issuing citations; and

Implementation in process

According to the ROC's new administration, the previously developed policy no longer reflects its complaint handling process. As reported in the initial followup, the agency had begun implementing this audit recommendation. However, the ROC reported that it has since performed an internal review of the complaint handling process and plans to update its policy and time frames by September 2016.

b. Time frames for issuing suspension or revocation orders in cases where contractors do not respond to citations.

Implementation in process

See explanation for Recommendation 2.3a.

2.4 The ROC should modify its complaint-handling process to help ensure complaints are resolved within the time frame it establishes.

Implementation in process

See explanation for Recommendation 2.3a

2.5 The ROC should develop and implement policies and procedures to ensure that licensee discipline is entered into its data system in a timely manner.

Implemented at 30 months

Finding 3: Problems with data system hamper ROC's ability to perform core functions

3.1 Regardless of whether the ROC decides to correct or replace ROCIMS, it should:

a. Continue with its efforts to fix the incorrect data in ROCIMS;

Implementation in process

The ROC reported that it hired a vendor to build a data warehouse to store its corrected data and that it has corrected and transferred some of its data into the warehouse. ROC staff are manually reviewing and correcting the remaining data, focusing their efforts on licensees active in the past 5 years, complaints investigated in the past 5 years, and disciplinary actions.

b. Provide training on data correction efforts and allocate time for its staff to identify and update all records that are incorrect;

Implementation in process

According to the ROC, it has provided informal training to its staff on how to correct the remaining data. The ROC has also developed procedures directing staff how to perform these corrections. Auditors will review the continued implementation of this recommendation during the 42-month followup.

c. Test to ensure that the data has been corrected; and

Implementation in process

According to the ROC, it is using its internal ROCIMS reports to identify errors or exceptions in data entry and is working with staff to correct errors. Auditors will review the continued implementation of this recommendation during the 42-month followup.

Recommendation

Status/Additional Explanation

- d. Develop and implement practices to ensure that the data remains accurate and complete.

Implementation in process

Although the ROC has developed reports to identify errors in its database, it has not developed and implemented policies and procedures regarding the use of these reports to ensure that the data in its system remains accurate and complete. Auditors will review the continued implementation of this recommendation during the 42-month followup.

- 3.2 To ensure that its business practices are aligned efficiently with ROCIMS or a replacement system, the ROC should:

- a. Analyze and document its applicable business practices;

Implementation in process

The ROC has started to document its business practices at a high level as part of its efforts to replace ROCIMS. The ROC reported that it is identifying a Commercial Off The Shelf (COTS) system to replace ROCIMS and using these high-level business practices to assess COTS system vendors. Once the ROC selects a COTS system, it plans to have the COTS system vendor perform a more detailed analysis of its business practices, including its revised complaint handling processes, before implementing the new system.

- b. Where appropriate, redesign its business practices to most efficiently meet its operational requirements and align applicable forms and business procedures with ROCIMS or a replacement system;

Not yet applicable

See explanation for Recommendation 3.2a.

- c. Develop and implement policies and procedures to document any revised business practices; and

Not yet applicable

See explanation for Recommendation 3.2a.

- d. Communicate the changes to appropriate staff, including providing training where needed.

Not yet applicable

See explanation for Recommendation 3.2a.

- 3.3 To better ensure that its staff understand and are able to use and maintain ROCIMS or a replacement system, the ROC should provide its staff with training relevant to their use of and responsibilities for the system by:

- a. Developing a training plan for system users and IT staff that includes who will be trained, what they will be taught, and when training will occur;

Implementation in process

The ROC's System Development Methodology procedures require that when the ROC develops a new system, it must also develop a training plan that documents the end-user training strategy and complete this training during the implementation stage. According to the ROC, it will establish a training plan to train staff on the new system once the new system has been implemented.

- b. Training staff according to the plan;

Not yet applicable

See explanation for Recommendation 3.3.a.

Recommendation	Status/Additional Explanation
<ul style="list-style-type: none"> c. Training new staff as they begin using the system; and d. Providing training to address changes to the system as it occurs. 	<p>Not yet applicable See explanation for Recommendation 3.3.a.</p> <p>Not yet applicable See explanation for Recommendation 3.3.a.</p>
<p>3.4 Regardless of whether the ROC decides to correct or replace ROCIMS, to ensure that its system is appropriately managed and maintained, the ROC should:</p> <ul style="list-style-type: none"> a. Improve project planning and oversight by developing, implementing, and periodically updating a project management plan; b. Develop and implement a systematic, accountable, and documented process for testing and applying updates; and c. Install updates after they have been properly evaluated and tested. 	<p>Implemented at 18 months</p> <p>Not implemented According to the ROC, it will not install the updates for ROCIMS because past experience has shown that implementing the updates caused more problems than they fixed. Rather, when the ROC develops its new system, it plans to have a detailed process for installing updates for the new system.</p> <p>Not implemented See explanation for Recommendation 3.4b.</p>
<p>3.5 To better ensure the security of information within ROCIMS or a replacement system, the ROC should plan for, incorporate, and use appropriate security controls.</p>	<p>Implemented at 30 months</p>
<p>3.6 If the ROC replaces ROCIMS with a new system, it should follow the formal system development lifecycle methodology that it adopted during the course of the audit.</p>	<p>Not yet applicable The ROC plans to replace ROCIMS with a COTS system and is in the process of selecting this new system. According to the ROC, they will work with the COTS vendor to help ensure that the COTS vendor adheres to a system development lifecycle methodology.</p>
<p>Sunset factor #2 The extent to which the ROC has met its statutory objective and purpose and the efficiency with which it has operated.</p>	
<p>1. The ROC should develop and implement policies and procedures to refund fees to applicants whose licenses were issued or denied outside of the ROC's 60-day time frame.</p>	<p>Implemented at 30 months</p>
<p>2. The ROC should work with its Attorney General representative to determine whether it needs to refund fees to applicants from previous years whose licenses were issued or denied outside of the time frame.</p>	<p>Implemented at 18 months</p>

Recommendation**Status/Additional Explanation**

- The ROC should develop and implement a method for providing additional complaint information to the public, including information about the type of complaint and how the ROC resolved the complaint.

Implementation in process

According to the ROC, it has not developed a written policy regarding the type of information that will be available on its Web site. However, the ROC's management reported that it plans to discuss its anticipated approach for providing complaint information to the public as part of the Web site's redesign, which is projected to be completed in June 2016. In addition, the ROC is working with a vendor to implement a new case management system as early as November 2016 and provide information on its Web site through this system.

- The ROC should develop and implement policies and procedures to guide the ROC's call center customer service representatives in providing information to the public.

Implementation in process

The ROC reported that it restructured its call center in August 2015 and is implementing new procedures that require customer service representatives to forward most calls regarding licensees to account representatives who have direct knowledge to answer the question. According to the ROC, it provides account representatives with multiple weeks of new staff training on ROCIMS. In addition, the ROC has provided customer service representatives with guidance for providing good customer service when answering phones. However, the ROC has not yet developed written guidance to assist staff in providing information.

Sunset factor #9 The extent to which changes are necessary in the laws of the ROC to adequately comply with the factors listed in this subsection.

- The ROC should seek a statutory change that would allow exceptions, such as for situations in which homeowner safety is at risk or the contractor has already gone out of business, that will enable it to better protect the public.

Implemented at 18 months

During the 2013 legislative session, statutory changes were proposed to modify this statute and to address this recommendation. However, the Legislature did not approve the suggested changes. According to the ROC, it does not plan to pursue further statutory changes for this recommendation.

- The ROC should seek a statutory change to modify the statute that limits the Recovery Fund's administrative expenses from 10 percent of the fund balance to 14 percent of the prior year revenues.

Implemented at 18 months

During the 2013 legislative session, the Legislature passed Laws 2013, Ch.187, to modify statute to allow the ROC to use up to 14 percent of the prior fiscal year's deposited funds to the Residential Contractors Recovery Fund for administrative expenses.
