



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

August 17, 2017

The Honorable Bob Worsley, Chair
Joint Legislative Audit Committee

The Honorable Anthony Kern, Vice Chair
Joint Legislative Audit Committee

Dear Senator Worsley and Representative Kern:

Our Office has recently completed a 48-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:

- 17 have been implemented;
- 2 have been partially implemented;
- 8 are in the process of being implemented;
- 7 are not yet applicable;
- 2 are no longer applicable; and
- 2 have not been implemented.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the ROC's efforts to implement the recommendations from the July 2013 report.

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

48-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;

Implemented at 18 months

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

Implemented at 18 months

c. Specify the steps the ROC will take if corrective action was not properly completed.

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

Implementation in Process

The ROC no longer uses consent agreements to discipline licensed contractors. However, it has adopted a process for identifying contractors that have had five or more complaints within 6 months or have a complaint for a severe violation. An internal committee considers factors such as the contractor's volume of work, the type and number of alleged violations, and the contractor's complaint history, and decides whether to pursue discipline through the Office of Administrative Hearings (OAH). The ROC reported that in fiscal year 2016, it issued 36 citations to licensed contractors using this process. Although the ROC has begun drafting policies and procedures for these processes, it had not finalized these policies and procedures as of July 2017. In addition, the ROC reported that it had begun issuing citations to any contractor who has not remedied a workmanship complaint after a follow-up inspection. However, the ROC had also not developed policies for this process.

Recommendation

Status/Additional Explanation

- 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.

Partially implemented at 30 months

As reported in the previous followup, the ROC refers complaints to OAH on its own motion on a limited basis. During the 48-month followup, auditors found that in fiscal year 2016, the ROC was still using this process and issued 36 citations on its own motion. For example, it issued a citation to one contractor who was offering to provide contractor services under several company names that were not listed on the contractor's license.

- 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.

Implementation in process

In 2013, the ROC developed a policy for escalating discipline for contractors with prior complaints that resulted in substantiated violations. However, as reported in the previous followup, by February 2015, the ROC's administration and approach to complaint resolution had changed, and the policy was used infrequently although it had not been officially discontinued. The ROC stated that it is drafting a new policy outlining principles for escalating discipline and plans to draft and implement the policy by August 2017.

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

Implemented at 48 months

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

Implemented at 48 months

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

Implemented at 48 months

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 its staff are continuing to manually correct errors and store the cleaned data in a data warehouse for eventual migration into a new system. In April 2017, the Arizona Department of Administration (ADOA) selected a vendor to develop an e-licensing system for use in several state agencies. The ROC reported that it plans to use that vendor's offering for its new system, but as of July 2017, the ROC had not formalized an agreement with the vendor.

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

Partially implemented at 48 months

According to the ROC, it provided informal training to its staff on how to correct the remaining data and provides similar training to new employees whose duties require them to work with the data. The ROC has also developed procedures directing staff on how to perform these corrections. According to the ROC, it will continue to provide informal training as needed. However, the ROC has not allocated time for its staff to identify and update all records that are incorrect.

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

Implemented at 48 months

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

Implementation in process

Although the ROC has developed reports to help identify data errors, 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.

Recommendation

Status/Additional Explanation

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;
- 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;
- c. Develop and implement policies and procedures to document any revised business practices; and
- d. Communicate the changes to appropriate staff, including providing training where needed.

Implementation in process

The ROC had begun to document its business practices as part of the configuration process for a vendor it was working with prior to the ADOA's selection of a vendor for an e-licensing system. Although the documents are not finalized, the ROC reported that the documents can be repurposed to fit the new solution when an agreement is reached with the new vendor.

Not yet applicable

See explanation for Recommendation 3.2a.

Not yet applicable

See explanation for Recommendation 3.2a.

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;
- b. Training staff according to the plan;
- c. Training new staff as they begin using the system; and
- d. Providing training to address changes to the system as it occurs.

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. As of July 2017, it had not entered into an agreement with the e-licensing system vendor and therefore did not have an estimated date for implementing the new system.

Not yet applicable

See explanation for Recommendation 3.3a.

Not yet applicable

See explanation for Recommendation 3.3a.

Not yet applicable

See explanation for Recommendation 3.3a.

| Recommendation | Status/Additional Explanation |
|---|--|
| <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 updates for ROCIMS because 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 an e-licensing system offered by a vendor selected by the ADOA. As of July 2017, the ROC had not formalized a contract with this vendor. According to the ROC, it will work with the vendor to help ensure that the 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**

3. 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

The ROC has updated its public records policies and procedures, but has not taken steps to ensure that staff provide complaint information on all licenses for contractors with multiple licenses or that the public can obtain information about the type of complaint and how a complaint was resolved, except through a formal public records request process. Specifically, the ROC has developed a reference note card as guidance for staff who provide information to the public on the phone. The card instructs staff to provide only the information available on the ROC's website and states that more detailed information should be obtained through a public records request. In addition, the ROC revised its *Records Request Handbook* in November 2016 to help guide staff in complying with formal requests for information. However, neither of these documents include guidance for communicating the type of complaint and how the ROC resolved the complaint to the public. According to ROC, it plans to work with a vendor to implement an e-licensing system and provide information on its website through this system, but as of July 2017, the ROC did not have details on how this system would provide this information.

4. 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 has developed a reference note card for staff in the call center and a public records handbook to guide all staff in providing information to the public. In addition, the ROC has added a feature to its website that allows the public or call center staff who search for a license number to see other licenses held by the contractor. However, the ROC has not developed guidance or policies instructing staff to use this search function to provide 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.

1. 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

2. 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
