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An Audit Report on

Performance Measures at the Residential Construction Commission

November 2007

Report No. 08-010



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Overall Conclusion

The Residential Construction Commission (Commission) reported unreliable results for 57 percent (four of seven) of the performance measures tested for the first three quarters of fiscal year 2007. A performance measure result is considered reliable if it is classified as certified or certified with qualification.

Specifically:

- Factors prevented certification of one key measure—Total Number of Texans Reached in Person—because the Commission did not follow its written policies and procedures for the collection and calculation of performance measure data. This error led the Commission to underreport the number of Texans receiving assistance through the Commission's toll-free help lines.
- Two key measures—Total Number of State-sponsored Inspection and Dispute Resolution Process (SIRP) Actions Closed and Average Days to Complete the SIRP—were inaccurate because the Commission did not consistently maintain supporting documentation and, in some instances, failed to record the actual opening and closing dates for a complaint.
- One key measure—Average Cost Per Registration Issued—was inaccurate because the Commission based its calculation of the measure on appropriation year expenditures rather than on the total expenditures during the fiscal year as indicated in the performance measure definition. In addition, the Commission did not have detailed written policies and procedures for the collection and calculation of this performance measure.
- One key measure—Number of Registrations Renewed—was certified with qualification because the Commission lacked current written policies and procedures for the collection of data and the calculation of this measure.
- Two key measures—Number of Home Registrations Issued and Number of New Builder/Remodeler Registrations Issued—were certified.

Background

Agencies report results for their key measures to the Legislative Budget Board's budget and evaluation system, which is called the Automated Budget and Evaluation System of Texas, or ABEST.

Table 1 on the following page summarizes the certification results from audit testing.

This audit was conducted in accordance with Texas Government Code, Section 2101.038.

For more information regarding this report, please contact Verma Elliott, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

Table 1

Residential Construction Commission (Agency 370)				
Related Objective or Strategy, Classification	Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results ^a
A.1.1 (Output)	Number of Home Registrations Issued	2007 - 1st quarter	42,616	Certified
		2007 - 2nd quarter	39,160	
		2007 - 3rd quarter	37,230	
		2007 - Year to date ^b	119,006	
A.1.1 (Output)	Number of New Builder/Remodeler Registrations Issued	2007 - 1st quarter	1,236	Certified
		2007 - 2nd quarter	1,229	
		2007 - 3rd quarter	1,652	
		2007 - Year to date ^b	4,117	
A.1.1 (Output)	Number of Registrations Renewed	2007 - 1st quarter	91	Certified with Qualification
		2007 - 2nd quarter	7,185	
		2007 - 3rd quarter	3,274	
		2007 - Year to date ^b	10,550	
A.1.1 (Efficiency)	Average Cost Per Registration Issued	2007 - 1st quarter	\$1.64	Inaccurate
		2007 - 2nd quarter	\$1.72	
		2007 - 3rd quarter	\$2.09	
		2007 - Year to date ^b	\$1.81	
B.1.1 (Output)	Total Number of SIRP Actions Closed	2007 - 1st quarter	104	Inaccurate
		2007 - 2nd quarter	101	
		2007 - 3rd quarter	145	
		2007 - Year to date ^b	350	
B.1.1 (Efficiency)	Average Days to Complete the SIRP	2007 - 1st quarter	104.97	Inaccurate
		2007 - 2nd quarter	118.10	
		2007 - 3rd quarter	129.82	
		2007 - Year to date ^b	119.05	
C.1.1 (Output)	Total Number of Texans Reached in Person	2007 - 1st quarter	7,221	Factors Prevented Certification
		2007 - 2nd quarter	14,800	
		2007 - 3rd quarter	17,426	
		2007 - Year to date ^b	39,447	

^a A measure is **Certified** if reported performance is accurate within plus or minus 5 percent of actual performance and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.

A measure is **Certified With Qualification** when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

A measure is **Inaccurate** when the actual performance is not within 5 percent of reported performance, or when there is more than a 5 percent error in the sample of documentation tested. A measure is also inaccurate if the agency's calculation deviated from the measure definition and caused more than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

Residential Construction Commission (Agency 370)				
Related Objective or Strategy, Classification	Description of Measure	Fiscal Year	Results Reported in ABEST	Certification Results ^a
<p>A Factors Prevented Certification designation is used if documentation is unavailable and controls are not adequate to ensure accuracy. This designation also will be used when there is a deviation from the measure definition and the auditor cannot determine the correct performance measure result.</p> <p>^b Reported results from September 1, 2006, through May 31, 2007.</p>				

Summary of Management's Response

The Commission generally agrees with the recommendations in this report.

Summary of Information Technology Review

Auditors assessed the information technology (IT) controls for the Commission's registration system (Builder Remodeler Inspector Arbitrator Registration System) and other automated processes used for performance measures data. Auditors evaluated general IT controls, including logical access, program changes, physical security, and disaster recovery. Auditors also evaluated application controls, including input controls, process controls, and output controls.

The Commission has general IT controls and application controls in place to ensure the integrity of data used for performance measures. However, controls related to physical security and the Commission's policies and procedures can be strengthened to ensure continued integrity of data used for the calculation and reporting of performance measures. To minimize security risks, auditors communicated details about these controls directly to the Commission.

Summary of Objectives, Scope, and Methodology

The objectives of the audit were to determine whether the Commission:

- Accurately reports selected key performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Has adequate control systems in place over the collecting, calculating, and reporting of selected key performance measures.

The audit scope consisted of testing seven key output and efficiency performance measures reported by the Commission for the first three quarters of fiscal year 2007 to determine their accuracy. Auditors also reviewed controls over the submission of data used in reporting the performance measures' results and traced performance measure documentation to the original source when possible.

The audit methodology consisted of selecting seven key measures to audit, auditing reported results for accuracy and adherence to measure definitions, evaluating controls over the performance measures, certifying the performance measure process and related information systems, and conducting a high-level review of all information systems that support the performance measure data.

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Detailed Results

Chapter 1

The Commission Reported Unreliable Results for Four of Seven Key Performance Measures Audited

Key Measures

Total Number of Texans Reached in Person

Factors prevented the certification of this measure because the Residential Construction Commission (Commission) maintained incomplete supporting documentation and did not follow its written policies and procedures for the calculation of this performance measure.

In calculating the Total Number of Texans Reached in Person, the Commission calculated the total number of people receiving in-person assistance and information from the Commission using the following:

Results: Factors Prevented Certification

Factors Prevent Certification of a measure when documentation is unavailable and controls are not adequate to ensure accuracy.

- Telephone calls made to the Commission's toll-free help lines.
- E-mails sent to a Commission e-mail address.
- Attendance figures from events and presentations in which the Commission participated.

Telephone Calls: The Commission had incomplete telephone call information for the first quarter of fiscal year 2007; therefore, the reported number of telephone calls could not be re-created by auditors. During this same time, the Commission did not follow its written policies and procedures and request monthly reports of telephone calls to its toll-free help lines. The reports were not requested until the end of the first quarter of fiscal year 2007. After 45 days, summary-level totals cannot be retrieved by the Commission from the Department of Information Resources' Centergy program, and the source data is overwritten after three to seven days. In addition, incoming calls to a second help line were not included in the results the Commission reported for the first quarter of fiscal year 2007. Auditors estimated that the Commission underreported between 3,500 and 9,300 telephone calls, which represents between 9 percent and 21 percent of the total number of reported calls calculated by the Commission for the reporting period (the first three quarters of fiscal year 2007).

E-mails: The Commission reported that it received 640 e-mails for the first three quarters of fiscal year 2007. More than 150 of these e-mails did not indicate a response had been sent from the Commission. The Commission did not follow its written policies and procedures for data collection, which state

that only e-mails with responses should be counted for the reporting of this performance measure.

Events / Presentations: The Commission uses two types of documents to verify the number of Texans receiving in-person assistance at events and presentations: (1) detailed sign-in sheets at the event or (2) e-mails containing a gate count from the event coordinator. The methodology for this measure does not specify how the number of Texans who receive direct services at presentations and events should be calculated (see Appendix 2 for a copy of this measure's definition). The Commission reported that it provided in-person assistance to 4,742 Texans who attended 1 event and 11 presentations during the first three quarters of fiscal year 2007.

The Commission had adequate support for the number of Texans receiving in-person assistance at the 11 presentations during the first three quarters of fiscal year 2007. The Commission reported that it provided in-person assistance to 742 Texans at 11 presentations that the Commission attended—this is 16 percent of the 4,742 Texans to whom the Commission reported it provided in-person assistance during the first three quarters of fiscal year 2007. Of the 11 presentations, one had a detailed sign-in-sheet verifying the number of Texans who received in-person assistance from Commission staff; for the other 10 presentations, the Commission used attendance figures verified through e-mails containing gate counts from the event coordinators to calculate the number of persons it provided in-person assistance.

The Commission reported that it provided assistance to 4,000 Texans at one trade show event. This number, however, was based on the event's entire gate count (reported by the event's coordinators) rather than on an estimation of the actual number of people the Commission assisted or to whom it provided information during the event. Obtaining only the gross gate attendance does not provide sufficient support that the attending population received direct services from Commission personnel as described in the measure's methodology. The Commission can not demonstrate how many of the 4,000 attendees to whom it actually provided information because the Commission does not have an estimation method (based on a sound documented methodology, which may include using a percentage of the gate count) to determine that figure or an actual documented count of people assisted.

Calculating a reasonable estimate of Texans provided assistance during events is important because the gate count reported for one of the events attended by the Commission during the first three quarters of fiscal year 2007 represented 84 percent of the "Total Number of Texans Reached in Person" at events and presentations reported by the Commission during the first three quarters of fiscal year 2007.

Recommendations

The Commission should develop controls and strengthen existing controls over the collection, calculation, and review of performance measure information by:

- Ensuring that employees are following its written data collection policies and procedures.
- Working with the Legislative Budget Board and Governor's Office of Budget, Planning, and Policy to update the performance measure's methodology to address how assistance at events and presentations should be calculated.

Management's Response

Management agrees that written procedures should be followed and that controls over those procedures should be strengthened. Procedures will be amended to note the time-frame for requesting reports to allow for accurate data. Documentation of compliance levels with the procedures and the timely gathering of data will be added to the performance reviews of the staff responsible for reporting.

Management agrees to discuss the measure calculation methodology with the Legislative Budget Board and the Governor's Office of Policy, Planning and Policy to update the definition and possibly explore other methodologies that may better address the data limitation related to in-person contact at events and presentations.

Total Number of SIRP Actions Closed

Average Days to Complete the SIRP

The Total Number of SIRP Actions Closed was inaccurate because auditors found errors in 8 of 61 (13 percent) of the State-sponsored Inspection and Dispute Resolution Process (SIRP) files tested. Of the eight errors identified, four had closing dates that were in a different quarter than the date that was entered into the Commission's Builder Remodeler Inspector Arbitrator Registration System (BRIARS). Four other SIRPs did not have supporting documentation, such as a close-out letter showing the date that the SIRP was closed.

Results: Inaccurate

A measure is **Inaccurate** when the actual performance is not within 5 percent of reported performance, or when there is more than a 5 percent error in the sample of documentation tested.

The Average Days to Complete the SIRP also was inaccurate because auditors' testing found errors in 35 of 61 (57 percent) items tested. Of the 35 errors identified, 14 did not have supporting documents for opening or closing dates and 21 had opening and/or closing dates that differed by at least 5 days from the dates entered into BRIARS.

State-sponsored Inspection and Dispute Resolution Process (SIRP)

A SIRP must precede any legal action taken by the Commission to resolve a post-construction residential dispute. After receiving a request from a homeowner for a SIRP, the Commission appoints a third-party inspector to conduct an inspection. An appellate panel reviews the inspector's findings and recommendations and issues a final agency decision.

According to the Commission, the opening date should be entered into BRIARS once the SIRP has been approved. The closing date should be entered into BRIARS, followed by the Commission sending a close-out letter to the parties involved. The Commission was not consistent in (1) entering data into BRIARS in a timely manner or (2) sending close-out letters to the homeowner, builder/remodeler, and any lawyers involved.

Also, the Commission has weak input controls for entering opening and closing dates into BRIARS. Although the Commission has written policies and procedures for the calculation of these performance measures, documented policies and procedures do not exist to describe the overall SIRP process, detail when the SIRPs are considered opened and closed, or describe how SIRP data should be entered into BRIARS.

Additionally, the Commission can close and then re-open a SIRP. When a SIRP is re-opened (and then closed), the Commission's system records a second closing date but not a second opening date. As a result, the SIRP will be double-counted as closed. Also, if a SIRP is re-opened, the Commission calculates the total days that the SIRP was open as the number of days from its initial opening date to its second closure date, rather than as the number of days it was open for the second time. The measure definitions for these two measures do not mention re-opened SIRPs.

Recommendations

The Commission should:

- Ensure that adequate documentation is collected and maintained to support these measures.
- Develop and implement policies and procedures for the collection of SIRP data, including detailed policies and procedures on entering the opening and closing dates of a SIRP into BRIARS.
- Work with the Legislative Budget Board and the Governor's Office of Budget, Planning, and Policy to clarify how re-opened SIRP cases should be calculated.

Management's Response

Management agrees that adequate documentation should be collected and maintained to support measures. A date field has been added to the documentation to provide better performance measure tracking than the current system that requires a signature and date on a routing slip. Additional staffing in this area was provided through the appropriation process beginning in Fiscal Year 2008. Some of this staffing will be assigned to

address the administrative functions and to ensure proper reporting of performance measures.

Management agrees that policies and procedures are necessary to ensure proper and consistent reporting. The development of these policies and procedures was already underway as a result of an internal audit. The new procedure manual will address the issues identified by this review as well.

Management agrees that clarity is needed on re-opened SIRPs and will work with the LBB in the next budget cycle to address the accounting for re-opened SIRPs in the commission's performance measure reporting.

Average Cost Per Registration Issued

The Commission did not calculate this measure accurately because it did not use the total expenditures for the registration strategy for the first three quarters of fiscal year 2007, which resulted in an 11 percent difference between the reported amount and auditors' recalculation of the cumulative year-to-date amount.

Results: Inaccurate

A measure is **Inaccurate** when the actual performance is not within 5 percent of reported performance, or when there is more than a 5 percent error in the sample of documentation tested.

The measure's definition states that total direct expenditures associated with the registration of builders/remodelers, homes, third-party inspectors, and arbitrators should be used to calculate the performance measure's results. Instead, the Commission used appropriation year expenditures in its calculations. Expenditures from previous appropriation years that are made in a different fiscal year have the potential of never being included as expenditures in the measure's calculation.

Also, in its calculation of the Average Cost Per Registration measure, the Commission included expenditures of all parties, including third-party warranty companies (the numerator); however, it excluded third-party warranty company registrants from the total number of registrations (the denominator) because these companies are not specifically mentioned in the measure's definition. This could cause the costs to be overstated and the registrations to be understated. The Commission should include all registrations, including third-party warranty company registrants, and all associated costs for the calculation of this performance measure.

In addition, the Commission did not have detailed written policies and procedures for the collection and calculation of performance measure data.

Recommendations

The Commission should:

- Use total expenditures for the fiscal year to calculate this measure or work with the Legislative Budget Board to modify the measure's definition.
- Ensure all registrations are included in the numerator and denominator for this measure by working with the Legislative Budget Board and the Governor's Office of Budget, Planning, and Policy to update the performance measure definition to include all registrations.
- Develop detailed, step-by-step policies and procedures for the collection and calculation for this performance measure.

Management's Response

Management does not agree with the finding that fiscal year expenditures should be used to calculate the average cost per registration issued. The commission believes that the calculation of the measure using an appropriated year better marries the reporting of results to funds used to accomplish that task based upon "the matching principle," one of two underlying tenants of financial reporting and disclosure. Using fiscal year expenditures as suggested by the State Auditor's Office would calculate average cost for an activity occurring in one fiscal year based on the expenditures from multiple fiscal years. During the upcoming budget cycle, the commission will request that the definition state that appropriated year expenditures be used.

Management agrees that the definition should include third-party warranty companies although it currently does not. Nine third-party warranty companies are registered, and their inclusion in the calculation would not have had a material effect on the reported result. The commission will request a change in the definition during the upcoming budget cycle.

Management agrees to develop more detailed procedures for calculating the measure.

Number of Registrations Renewed

Results: Certified with Qualification

A measure is Certified with Qualification when reported performance appears accurate, but the controls over data collection and reporting are not adequate to ensure continued accuracy.

The Commission's reported results for this measure were accurate; however, the measure was certified with qualification because the Commission lacked current written policies and procedures for the collection and calculation of the measure.

In addition, the Commission did not include third-party warranty company registration renewals in its count for the performance measure's calculation, although the difference was still within 5 percent of the amount reported. The performance measure's definition in ABEST states this measure is "the total number of all types of registrations renewed annually." Third-party warranty companies' registrations are identified as a type of registration in the Commission's *Registration Manual*.

Recommendations

The Commission should:

- Update written policies and procedures to ensure continued accuracy of this performance measure. These procedures should be designed to report all renewals, including renewals by builders/remodelers, inspectors, arbitrators, and third-party warranty companies.
- Work with the Legislative Budget Board and the Governor's Office of Budget, Planning, and Policy to update the performance measure's definition to specifically include third-party warranty companies' registration renewals.

Management's Response

Management agrees to ensure that when the departmental procedure manual is completed, the current procedures will be reflected therein. Documentation of compliance levels with the procedures and the timely gathering of data will be added to the performance reviews of the staff responsible for reporting.

Management agrees that the definition should include third-party warranty companies although it currently does not. Nine third-party warranty companies are registered, and their inclusion in the calculation would not have had a material effect on the reported result. The commission will request a change in the definition during the upcoming budget cycle.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Residential Construction Commission (Commission) accurately reports selected key performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Determine whether the Commission has adequate control systems in place over the collecting, calculating, and reporting of selected key performance measures.

Scope

The scope of this audit included seven key output and efficiency performance measures reported by the Commission for the first three quarters of fiscal year 2007. Auditors also reviewed controls over the submission of data used in reporting performance measures and traced performance measure information to the original source when possible.

Methodology

Auditors selected seven key performance measures reported in ABEST. The Commission completed questionnaires related to its performance measurement process to help identify preliminary control information.

Specific tests and procedures included:

- Auditing calculations for accuracy and to ensure that they were consistent with the methodology on which the Commission and the Legislative Budget Board agreed.
- Analyzing data flow to evaluate whether proper controls were in place.
- Testing a sample of source documents to verify the accuracy of reported performance when possible.
- Conducting a high-level review of all information systems that support the performance measure data.

Performance measure results are reported in one of four categories: (1) Certified, (2) Certified with Qualification, (3) Inaccurate, and (4) Factors Prevented Certification.

The *Guide to Performance Measure Management* (State Auditor's Office Report No. 06-329, August 2006) was used as criteria for this audit.

Project Information

Audit fieldwork was conducted from August 2007 through September 2007. This audit was conducted in accordance with generally accepted government auditing standards.

The following members of the State Auditor's staff performed the audit:

- Jennifer Wiederhold, CGAP (Project Manager)
- Tony White (Assistant Project Manager)
- Becky Beachy, CIA, CGAP
- Olivia Gutierrez
- Sajil Scaria
- J. Scott Killingsworth, CIA, CGFM (Quality Control Reviewer)
- Verma Elliott, MBA, CIA, CGAP (Audit Manager)

ABEST Definition of Total Number of Texans Reached in Person Performance Measure

Table 2 lists the definition in ABEST for the Total Number of Texans Reached in Person.

Table 2

Total Number of Texans Reached in Person Measures Definitions Report in ABEST
<p style="text-align: center;"><u>Definition</u></p> <p>The total number of people receiving in-person assistance through the toll-free helpline or via inquiries to the info@trcc.state.tx.us e-mail address, or that attend an event or presentation where the commission participates.</p>
<p style="text-align: center;"><u>Data Limitations</u></p> <p>The commission counts the attendees at events where the commission participated and provided educational information to those attendees; it may be that the commission is unable to actually personally contact each participant at some events or obtain third-party independent validation of attendance numbers.</p>
<p style="text-align: center;"><u>Data Source</u></p> <p>The commission receives inquiries on its toll-free helpline or through its public inquiry email address. These inquiries allow commission staff to directly assist Texans in need of information or assistance. Additionally, commission personnel receives invitations to speak to consumer groups throughout the year in small classroom settings and at large trade shows. The commission takes advantage of those opportunities to directly provide information to consumers and industry</p>
<p style="text-align: center;"><u>Methodology</u></p> <p>The sum of the population who receive direct services from commission personnel is taken from a monthly report of email contacts received, call volume reports related to the toll-free helpline, and from logs maintained by staff and reported monthly to executive management. The reports are maintained in a notebook with all requisite supporting documentation attached.</p>
<p style="text-align: center;"><u>Purpose</u></p> <p>This measure provides information on the extent to which the commission was able to provide Texans information. This information helps to create well informed, educated consumers and industry members.</p>

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Warren Chisum, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Residential Construction Commission

Mr. Patrick Cordero, Chair
Ms. Glenda Mariott, Vice Chair
Mr. Lewis Brown, Secretary
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