



Preventing a Culture of Leaking Profitability and Risk Exposure

SEVEN MISSION CRITICAL STEPS FOR STRONG DOCUMENT RETENTION

In a dark corner of some storage facility, a small rodent enjoyed a midnight snack of carton, card stock and paper. Unfortunately, what this hungry rat was busy ingesting was a five year old lot file. This file held all the important contracts, escrow documents and mold disclosures about a house that was about to experience a toxic mold issue because the central air installed by a subcontractor was leaking.

To the builder's dismay, when it came time to tracking down the lot file to help answer a lawsuit, it could not be found, and the builder was unable to properly defend itself.

When it came time for a verdict, the builder was on the hook for repairs and damages. This missing lot file cost the builder more than \$200,000 in legal fees, repairs, damages and the inability to recover any warranty dollars. And beyond the initial cost of the lawsuit, the builder's insurance carrier dropped the builder as a client. The builder finally acquired new insurance, but the premiums were now 28% higher than was previously paid.

This is a true story. And it's a story indicative of the homebuilding industry's response to an important paradigm shift in corporate America; that of a proactive records retention program.

But it's not just mice or random acts of nature that put records at risk. *The biggest culprit is the transference of documents* from one person to another; from one department to another; back and forth from storage; from lawyer to client and back again. It's the mislabeling or misfiling of others. It's the lack of cohesive policies and procedures. In fact, according to a DataPro/Gartner Group study, **25% of all records are lost or destroyed over a period of five years.**

Steve Fabry CEO and founder of homebuilder documentation services firm Master Manuals described the state of the industry, "Imagine a pickup truck with a bed full of documents flying down the road. The files don't all disappear, but over the course of the drive, a significant amount of the paper will fly away; lost forever. Considering that the documents generated today will be needed in five, seven, nine years down the road, the lack of a formal



"My staff does not search for documents they need because they know they are difficult or impossible to find. We miss the opportunity to mitigate our liability."

VP of Warranty
Top U.S. Homebuilder *Institute of Residential Marketing*
Results from NAHB sponsored survey



and consistent process in which some builders handle their documents costs them greatly.”

Fabry noted that “on the whole, builders understand the critical role of risk management in their organizations’ long-term success and profitability, but too few have taken steps to form a comprehensive and integrated approach to managing those risks. The result is often unanticipated and unnecessary liabilities. It is in this area that proper documentation practices can generate greater profitability.”

In the age of corporate accountability, a builder’s records are only valuable when they can be accessed and read. In an ongoing effort to help serve builders, Fabry provides seven “mission-critical” best practices that will help create a strong document retention program that creates an enterprise-wide positive culture of compliance, communication, and cost-savings.

Understand what compliance means in your state. Since the passage of most state’s right to repair laws (including SB800 (CA) SB241 (NV), SB5536 (WA), HB2525 (OR), and HB2620 (AZ)), the builder knows they are liable for every house in every community they have built for up to ten years. Add to that, the federal mandates of Sarbanes-Oxley, Magnusson-Moss and ESI (Electronically Stored Information)Rule 37 (f), builders must know what documents satisfy these requirements and how long they need to retain the information.

Have a plan: define and identify what needs to be collected and retained. A builder is responsible for collecting as many as a quarter million pages per community; everything from land acquisition, forward planning, maps, subdivision reports, design plans, insurance certificates, entitlements, insurance, forensics to marketing packages, accounts payable, bonds, bids, inspections, permits, contracts, HOA provisions, customer service, internal memos, and correspondences. It seems insurmountable, but if a builder has a clear understanding of which documents are relevant and a means to collectively assemble them, they will realize a significant increase in internal process efficiency.

Ensure your documents are complete. It is alarming how many important documents are not properly dated, missing key signatures or pages, contain transposed numbers or a host of other errors. By implementing a rigorous audit procedure, builders not only make certain that the relevant documents are available and accurately organized, but they are properly filled out and executed.

“Effective document management is much more than simply storing key documents. It’s about finding what you need when you need it.”



“A typical worker spends an average of 150 hours per year looking for lost documents.”

Source: Coopers & Lybrand



Establishing effective records retention program policies & procedures

- ✓ Incorporate all department's, identify one person for each dept. as the captain. Each department is accountable for retaining their portion of the company documents.
- ✓ Establish good communication and direction of the policy.
- ✓ Regularly schedule training on records management.
- ✓ Define what documents are to be collected
- ✓ Set deadlines for collection and accounting associated with the timing of the projects and closure to the document.
- ✓ Establish a check and balance for all files to avoid lose of documents.
- ✓ Check effectiveness of system as it relates to best practices. Department captains to meet regularly. Have employee's practice producing relevant electronic evidence.
- ✓ Create usage for compliance, litigation, customer service claims, SB800 claims, insurance claims, reference library, regulatory inspections (storm water prevention or OSHA requirements).

Implement a centralized library system capable of retrieving any record in whatever format as quickly as needed. Effective document management is more than simply storing documents. It involves finding what you want when you need it. As the mountain of documents grows exponentially (storage requirements for hardcopy documents double every three years according to the Association of Records Managers and Administrators) and new e-discovery laws force companies to better manage the volumes of electronic information they generate, builders need a fast, efficient archival process that provides on-demand delivery of both hardcopy and electronic documents. Many builders are beginning to realize the value of a secure electronic archiving system that can serve as a comprehensive library available across the enterprise.

Make records searchable/easily accessible. According to Coopers and Lybrand, a typical worker spends an average of 150 hours per year looking for lost documents. And the problem affects every level of a builder's organization including accounting, customer service and executive levels. The ability to instantly parse thousands of documents to find a single specific clause or retrieve a specific file significantly impacts response time, which in turn creates operational windfalls that equate to an increased rate of return and a competitive advantage.

Document retention is not just one person's job. The most effective companies have a team which incorporates members from the various departments that are accountable for retaining their portion of company documents. On your team, it is helpful to have an expert in records management to serve as the programs "captain." This team is also responsible for the creation and adherence to your company's policies and procedures.

Routinely purge duplicate, outdated or unnecessary records. Your document retention team should annually review your records to determine which documents are no longer relevant. These records should be properly destroyed or deleted.

As business sage Peter Drucker once said, "Efficiency is doing things right; effectiveness is doing the right things." As the business landscape for homebuilders is changing faster and faster, it is essential for builders to embrace the right things...and do them right. By embracing the best document practices, builders will be well on their way to preventing a culture of leaking profitability and risk exposure.

So, where IS that trade contract?



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