

PERFORMANCE AND FINANCIAL AUDIT
OF THE
HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND
DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES
October 1, 1997 through September 30, 2000

EXECUTIVE DIGEST

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND

INTRODUCTION

This report contains the results of our performance* and financial* audit of the Homeowner Construction Lien Recovery Fund (HCLRF), Department of Consumer and Industry Services. The financial portion of our audit covered the period October 1, 1997 through September 30, 2000.

AUDIT PURPOSE

This performance and financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*. Financial audits are conducted at various intervals to provide for enhanced financial reporting of significant State programs and/or activities and to complement the annual audit of the State's financial statements. Also, this audit complements the departmentwide financial audit.

BACKGROUND

HCLRF is governed by Sections 570.1101 - 570.1305 of the *Michigan Compiled Laws* (Act 497, P.A. 1980, as amended) and is administered by the Department of Consumer and Industry Services.

HCLRF was established in January 1982 to protect homeowners from lien claims for residential construction

* See glossary at end of report for definition.

and remodeling. It also protects persons providing labor, materials, or equipment for real property improvement.

HCLRF is self-supporting from fees charged to licensees* and other lien claimants. If, on December 1 of any year, the fund balance in HCLRF is less than \$1 million, the director of the Department may require an additional assessment, not to exceed \$50 per person in an assessment period, unless the Legislature adopts a resolution to prohibit the additional assessment. HCLRF's fund balance was \$113,305 as of December 1, 1998. The Department issued an additional \$50-per-person assessment in April 1999 as provided by the Act and collected approximately \$3.8 million. HCLRF's balance was \$3,368,738 as of December 1, 1999.

For fiscal year 1999-2000, HCLRF reported expenditures and operating transfers out of \$1,004,702 and revenues and other financing sources of \$644,458. As of September 30, 2000, HCLRF had one direct employee. In addition, the Department provides fiscal and management services to HCLRF.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess the effectiveness of HCLRF's operations.

Conclusion: Our assessment concluded that HCLRF's operations were generally effective. We noted no reportable conditions* related to the audit objective.

Audit Objective: To assess and report on HCLRF's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and

* See glossary at end of report for definition.

on its internal control* over financial reporting, based on our audit of the financial statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*.

Noteworthy Accomplishments: The Department reported that, upon approval of the Department's director, HCLRF initiated the first special assessment in its 18-year history. Prior to obtaining the director's approval, HCLRF staff held numerous meetings with professional trade associations in order to obtain their cooperation. Approximately 88,200 (92%) of the 96,300 special assessments, which were issued in April 1999, had been collected as of the end of our audit. The process of collecting these assessments has continued with each license renewal cycle. Special assessment payment reminders were mailed prior to the issuance of the renewal applications. Renewal applications are not sent until the special assessment is paid.

Audit Objective: To audit HCLRF's financial statements as of and for the fiscal years ended September 30, 2000, September 30, 1999, and September 30, 1998.

Conclusion: We expressed an unqualified opinion* on HCLRF's financial statements.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Homeowner Construction Lien Recovery

* See glossary at end of report for definition.

Fund. Also, our audit scope was to examine the financial records for the period October 1, 1997 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our methodology included reviewing legislation pertaining to HCLRF and HCLRF procedures. We selected program and other records for review and discussed operational practices with agency personnel. We also analyzed HCLRF's lien claim database and reviewed lien claim files to assess the effectiveness of HCLRF's operations.

PRIOR AUDIT
FOLLOW-UP

The Department of Consumer and Industry Services complied with all 5 of our prior audit recommendations.

June 20, 2001

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

This is our report on the performance and financial audit of the Homeowner Construction Lien Recovery Fund, Department of Consumer and Industry Services. The financial portion of our audit covered the period October 1, 1997 through September 30, 2000.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and prior audit follow-up; comments; and independent auditor's reports on compliance and on internal control over financial reporting and on the financial statements. This report also contains the Homeowner Construction Lien Recovery Fund financial statements and notes to the financial statements and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The Homeowner Construction Lien Recovery Fund (HCLRF) is governed by Sections 570.1101 - 570.1305 of the *Michigan Compiled Laws* (Act 497, P.A. 1980, as amended) and is administered by the Department of Consumer and Industry Services.

HCLRF was established in January 1982 to protect homeowners from lien claims for residential construction and remodeling. It also protects persons providing labor, materials, or equipment for real property improvement. Only persons who have paid into HCLRF are entitled to recover from HCLRF. HCLRF will pay a maximum of \$75,000 per residential structure for unsatisfied liens. If the Department makes a payment from HCLRF as a result of actions or inactions of a licensee, HCLRF will file a complaint against a licensee. The licensee's license may be revoked until the licensee has repaid HCLRF the amount paid plus the cost of litigation and interest.

HCLRF is self-supporting from fees charged to licensed residential builders, residential maintenance and alteration contractors, electrical contractors, fire alarm contractors, authorized master plumbers, mechanical contractors, and other lien claimants. HCLRF is to maintain a minimum fund balance of \$1 million. If, on December 1 of any year, the fund balance in HCLRF is less than \$1 million, the director of the Department may require an additional assessment, not to exceed \$50 per person in an assessment period, unless the Legislature adopts a resolution to prohibit the additional assessment.

HCLRF's fund balance was \$113,305 as of December 1, 1998. The Department issued an additional \$50-per-person assessment in April 1999 as provided by the Act and collected approximately \$3.8 million. HCLRF's balance was \$3,368,738 as of December 1, 1999.

For fiscal years 1999-2000, 1998-99, and 1997-98, HCLRF reported expenditures and operating transfers out of \$1,004,702, \$975,241, and \$1,052,042, respectively, and revenues and other financing sources of \$644,458, \$4,347,413, and \$412,859, respectively. As of September 30, 2000, HCLRF had one direct employee. In addition, the Department provides fiscal and management services to HCLRF.

Audit Objectives, Scope, and Methodology and Prior Audit Follow-Up

Audit Objectives

Our performance and financial audit of the Homeowner Construction Lien Recovery Fund (HCLRF), Department of Consumer and Industry Services, had the following audit objectives:

1. To assess the effectiveness of HCLRF's operations.
2. To assess and report on HCLRF's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control over financial reporting, based on our audit of the financial statements.
3. To audit HCLRF's financial statements as of and for the fiscal years ended September 30, 2000, September 30, 1999, and September 30, 1998.

Audit Scope

Our audit scope was to examine the program and other records of the Homeowner Construction Lien Recovery Fund. Also, our audit scope was to examine the financial records for the period October 1, 1997 through September 30, 2000. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures were performed from August through December 2000.

Our methodology included reviewing legislation pertaining to HCLRF and HCLRF procedures. We selected program and other records for review and discussed operational practices with agency personnel. We also analyzed HCLRF's lien claim

database and reviewed lien claim files to assess the effectiveness of HCLRF's operations.

Prior Audit Follow-Up

The Department of Consumer and Industry Services complied with all 5 of our prior audit recommendations.

COMMENTS

EFFECTIVENESS OF OPERATIONS

COMMENT

Audit Objective: To assess the effectiveness of the Homeowner Construction Lien Recovery Fund's (HCLRF's) operations.

Conclusion: Our assessment concluded that HCLRF's operations were generally effective. We noted no reportable conditions related to the audit objective.

COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

COMMENT

Audit Objective: To assess and report on HCLRF's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control over financial reporting, based on our audit of the financial statements.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial statements. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.

Noteworthy Accomplishments: The Department reported that, upon approval of the Department's director, HCLRF initiated the first special assessment in its 18-year history. Prior to obtaining the director's approval, HCLRF staff held numerous meetings with professional trade associations in order to obtain their cooperation. Approximately 88,200 (92%) of the 96,300 special assessments, which were issued in April 1999, had been collected as of the end of our audit. The process of collecting these assessments has continued with each license renewal cycle. Special assessment payment reminders were mailed prior to the issuance of the renewal applications. Renewal applications are not sent until the special assessment is paid.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit HCLRF's financial statements as of and for the fiscal years ended September 30, 2000, September 30, 1999, and September 30, 1998.

Conclusion: We expressed an unqualified opinion on HCLRF's financial statements.

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

December 20, 2000

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the financial statements of the Homeowner Construction Lien Recovery Fund, Department of Consumer and Industry Services, as of and for the fiscal years ended September 30, 2000, September 30, 1999, and September 30, 1998 and have issued our report thereon dated December 20, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Homeowner Construction Lien Recovery Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Homeowner Construction Lien Recovery Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of

one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Department of Consumer and Industry Services, the State's management, and the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on
the Financial Statements

December 20, 2000

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the accompanying balance sheet of the Homeowner Construction Lien Recovery Fund, Department of Consumer and Industry Services, as of September 30, 2000, September 30, 1999, and September 30, 1998 and the related statement of revenues, expenditures, and changes in fund balance and statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal years then ended. These financial statements are the responsibility of the Fund's management and the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial statements present only the Homeowner Construction Lien Recovery Fund and are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Homeowner Construction Lien

Recovery Fund as of September 30, 2000, September 30, 1999, and September 30, 1998 and the results of its operations for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2000 on our tests of the Homeowner Construction Lien Recovery Fund's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND
 Department of Consumer and Industry Services
 Balance Sheet
As of September 30

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|--|----------------------------|----------------------------|-------------------------|
| ASSETS | | | |
| Equity in State Treasurer's Common Cash (Note 4) | <u>\$ 3,046,687</u> | <u>\$ 3,475,781</u> | <u>\$ 96,974</u> |
| Total Assets | <u>\$ 3,046,687</u> | <u>\$ 3,475,781</u> | <u>\$ 96,974</u> |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities: | | | |
| Warrants outstanding | \$ 9,653 | \$ 23,692 | \$ 2,296 |
| Accounts payable and other liabilities | 12,169 | 66,559 | 81,717 |
| Amounts due to other funds | <u>286</u> | <u>707</u> | <u>309</u> |
| Total Liabilities | \$ 22,108 | \$ 90,958 | \$ 84,322 |
| Fund Balance - Reserved | | | 2,010 |
| Fund Balance - Unreserved (Note 4) | <u>3,024,579</u> | <u>3,384,823</u> | <u>10,641</u> |
| Total Liabilities and Fund Balance | <u>\$ 3,046,687</u> | <u>\$ 3,475,781</u> | <u>\$ 96,974</u> |

The accompanying notes are an integral part of the financial statements.

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HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND
 Department of Consumer and Industry Services
 Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ended September 30

| | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---|---------------------|---------------------|---------------------|
| REVENUES | | | |
| Miscellaneous: | | | |
| Fund assessments (Note 4) | \$ 363,090 | \$ 4,153,064 | \$ 305,609 |
| Interest from State Treasurer's Common Cash | 208,052 | 77,770 | 36,393 |
| Other | <u>73,316</u> | <u>116,579</u> | <u>70,857</u> |
| Total Revenues (Note 4) | <u>\$ 644,458</u> | <u>\$ 4,347,413</u> | <u>\$ 412,859</u> |
| EXPENDITURES | | | |
| Fund Administrative Expenditures: | | | |
| Department of Consumer and Industry Services - Administrative expenditures | \$ 115,257 | \$ 98,765 | \$ 213,819 |
| Department of Attorney General | 338,846 | 288,317 | 279,717 |
| Special Assistant Attorneys General | <u>90,447</u> | <u>112,785</u> | <u>200,846</u> |
| Total Fund Administrative Expenditures | \$ 544,550 | \$ 499,867 | \$ 694,382 |
| Lien claim payments | <u>416,983</u> | <u>467,917</u> | <u>351,665</u> |
| Total Expenditures | <u>\$ 961,533</u> | <u>\$ 967,784</u> | <u>\$ 1,046,047</u> |
| Excess of Revenues Over (Under) Expenditures | <u>\$ (317,075)</u> | <u>\$ 3,379,629</u> | <u>\$ (633,188)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating transfers to the General Fund | <u>\$ (43,169)</u> | <u>\$ (7,457)</u> | <u>\$ (5,995)</u> |
| Total Other Financing Sources (Uses) | <u>\$ (43,169)</u> | <u>\$ (7,457)</u> | <u>\$ (5,995)</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses (Note 4) | <u>\$ (360,244)</u> | <u>\$ 3,372,172</u> | <u>\$ (639,183)</u> |
| Fund Balance - Beginning of fiscal year | <u>\$ 3,384,823</u> | <u>\$ 12,651</u> | <u>\$ 651,834</u> |
| Fund Balance - End of fiscal year (Note 4) | <u>\$ 3,024,579</u> | <u>\$ 3,384,823</u> | <u>\$ 12,651</u> |

The accompanying notes are an integral part of the financial statements.

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND
 Department of Consumer and Industry Services
 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Budget and Actual
Fiscal Years Ended September 30

| <u>Statutory/Budgetary Basis</u> | <u>2000</u> | | Variance Favorable (Unfavorable) |
|---|---------------------|---------------------|--|
| | <u>Budget</u> | <u>Actual</u> | |
| REVENUES AND OTHER SOURCES | | | |
| Miscellaneous (Note 4) | <u>\$ 644,458</u> | <u>\$ 644,458</u> | <u>\$ 0</u> |
| Total Revenues and Other Sources | <u>\$ 644,458</u> | <u>\$ 644,458</u> | <u>\$ 0</u> |
| EXPENDITURES AND OPERATING TRANSFERS OUT | | | |
| Fund administrative expenditures and lien claim payments | <u>\$ 1,004,702</u> | <u>\$ 1,004,702</u> | <u>\$ 0</u> |
| Total Expenditures and Operating Transfers Out | <u>\$ 1,004,702</u> | <u>\$ 1,004,702</u> | <u>\$ 0</u> |
| Revenues and Other Sources Over (Under) Expenditures and Operating Transfers Out (Statutory/Budgetary Basis) | <u>\$ (360,244)</u> | <u>\$ (360,244)</u> | <u>\$ 0</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Operating Transfers Out (GAAP Basis) | | \$ (360,244) | |
| FUND BALANCE (GAAP BASIS) | | | |
| Beginning balance | | <u>3,384,823</u> | |
| Ending balance (GAAP Basis) (Note 4) | | <u>\$ 3,024,579</u> | |

The accompanying notes are an integral part of the financial statements.

| 1999 | | | 1998 | | |
|---------------------|---------------------|----------------------------------|---------------------|---------------------|----------------------------------|
| Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| \$ 4,347,413 | \$ 4,347,413 | \$ 0 | \$ 412,859 | \$ 412,859 | \$ 0 |
| \$ 4,347,413 | \$ 4,347,413 | \$ 0 | \$ 412,859 | \$ 412,859 | \$ 0 |
| \$ 975,241 | \$ 975,241 | \$ 0 | \$ 1,052,041 | \$ 1,052,041 | \$ 0 |
| \$ 975,241 | \$ 975,241 | \$ 0 | \$ 1,052,041 | \$ 1,052,041 | \$ 0 |
| <u>\$ 3,372,172</u> | <u>\$ 3,372,172</u> | <u>\$ 0</u> | <u>\$ (639,182)</u> | <u>\$ (639,182)</u> | <u>\$ 0</u> |
| | \$ 3,372,172 | | | \$ (639,182) | |
| | <u>12,651</u> | | | <u>651,834</u> | |
| | <u>\$ 3,384,823</u> | | | <u>\$ 12,651</u> | |

Notes to the Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial statements report the financial position and results of operations of the Homeowner Construction Lien Recovery Fund (HCLRF), Department of Consumer and Industry Services, as of and for the fiscal years ended September 30, 2000, September 30, 1999, and September 30, 1998. HCLRF is part of the State of Michigan's reporting entity and is reported as a special revenue fund in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial statements relate directly to HCLRF. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Pension Benefits and Other Postemployment Benefits, Compensated Absences, and Contingencies and Commitments.

b. Basis of Accounting and Presentation

The financial statements contained in this report are prepared on the modified accrual basis of accounting. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial statements present only the Homeowner Construction Lien Recovery Fund. Accordingly, they are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue funds.

Note 2 Budgeting and Budgetary Control

Budgetary amounts in the statement of revenues, expenditures, and changes in fund balance - budget and actual concur with the presentation in the *SOMCAFR*.

Note 3 Future Claims and Cost of Settling Future Claims

HCLRF was originally created by Act 497, P.A. 1980, effective January 1, 1982, and its enabling legislation is contained in Sections 570.1101 - 570.1305 of the *Michigan Compiled Laws*. HCLRF was established to protect homeowners from lien claims filed by contractors, subcontractors, laborers, and suppliers to a maximum of \$75,000 per residential structure. Section 570.1203 of the *Michigan Compiled Laws* provides that a lien claim will be paid from HCLRF only on a court order and that the Attorney General will defend HCLRF.

The allowances for future claim losses and the cost of settling future claims cannot be reasonably estimated at this time. As a result, future claim losses and the cost of settling future claims are not reported as a liability.

Note 4 Assessments and Fund Balance

During fiscal year 1998-99, the Department assessed each licensee/HCLRF member \$50, as provided for in the *Michigan Compiled Laws*, generating revenues of approximately \$3.8 million and resulting in a corresponding increase in HCLRF's equity in the State Treasurer's Common Cash and HCLRF's fund balance.

HCLRF's fund balance had declined on a continual basis from fiscal year 1991-92 through 1997-98. As of September 30, 1991, HCLRF's fund balance was \$3,191,872; as of September 30, 1998, HCLRF's fund balance was \$12,651:

| <u>Fiscal Year Ended</u> | <u>Ending Fund Balance</u> | <u>Change From Prior Year</u> |
|--------------------------|----------------------------|-----------------------------------|
| 1991 | \$ 3,191,872 | |
| 1992 | \$ 2,965,190 | \$ (226,682) |
| 1993 | \$ 2,319,855 | \$ (645,335) |
| 1994 | \$ 1,701,002 | \$ (618,853) |
| 1995 | \$ 1,228,645 | \$ (472,357) |
| 1996 | \$ 975,750 | \$ (252,895) |
| 1997 | \$ 651,835 | \$ (323,915) |
| 1998 | \$ 12,651 | \$ (639,184) |
| 1999 | \$ 3,384,823 | \$ 3,372,172 |
| 2000 | \$ 3,024,579 | \$ (360,244) |

Section 570.1201(2) of the *Michigan Compiled Laws* states that if, on December 1 of any year, the fund balance in HCLRF is less than \$1 million, the director of the Department may require an additional assessment, not to exceed \$50 per person in an assessment period, unless the Legislature adopts a resolution to prohibit the additional assessment. As shown above, HCLRF's fund balance decreased below \$1 million during fiscal year 1995-96. HCLRF's fund balance was \$113,305, \$608,297, and \$879,270 as of December 1, 1998, December 1, 1997, and December 1, 1996, respectively. During fiscal year 1998-99, the Department established an additional assessment, as provided for in the *Michigan Compiled Laws*, and replenished HCLRF's fund balance to enable HCLRF to continue providing coverage and services. HCLRF's fund balance was \$3,368,738 as of December 1, 1999.

Glossary of Acronyms and Terms

| | |
|-------------------|---|
| effectiveness | Program success in achieving mission and goals. |
| efficiency | Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes. |
| financial audit | An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting. |
| GAAP | accounting principles generally accepted in the United States of America. |
| HCLRF | Homeowner Construction Lien Recovery Fund. |
| internal control | A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with applicable laws and regulations. |
| licensee | A licensed residential builder, residential maintenance and alteration contractor, electrical contractor, fire alarm contractor, authorized master plumber, or mechanical contractor. |
| material weakness | A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to |

the financial schedules and/or financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Michigan
Administrative
Information Network
(MAIN)

A fully integrated automated financial management system for the State of Michigan.

performance audit

An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

reportable condition

A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents (1) either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner or (2) a significant deficiency in the design or operation of internal control that could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements.

SOMCAFR

State of Michigan Comprehensive Annual Financial Report.

unqualified opinion

An auditor's opinion in which the auditor states, without reservation, that the financial schedules and/or financial statements are fairly presented in conformity with the disclosed basis of accounting or are fairly presented in relation to the primary financial schedules and/or statements.