

PERFORMANCE AUDIT
OF THE
BUREAU OF LEGAL SERVICES

DEPARTMENT OF STATE

February 2001

EXECUTIVE DIGEST

BUREAU OF LEGAL SERVICES

INTRODUCTION

This report, issued in February 2001, contains the results of our performance audit* of the Bureau of Legal Services (BLS), Department of State.

AUDIT PURPOSE

This performance 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*.

BACKGROUND

BLS's mission* includes providing legal research and counsel to the Secretary of State and due process services afforded to Michigan residents under State law. This includes working with the Department of Attorney General on litigation and other court action that affect the Department of State. In addition, BLS provides audit and enforcement oversight within the Department of State and screened information from the Department's computer files to qualified agencies and individuals.

BLS consists of the Administrative Law Division, Compliance and Rules Division, Driver License Appeal Division, Enforcement Division, Information Services Division, and Internal Audit Division (IAD).

* See glossary at end of report for definition.

BLS had 90 employees as of August 31, 2000 and was appropriated approximately \$6.8 million for the fiscal year ended September 30, 2000.

AUDIT OBJECTIVES,
AND CONCLUSIONS

Audit Objective: To assess BLS's efforts in providing effective and efficient legal counsel and due process services.

Conclusion: We concluded that BLS provided effective and efficient legal counsel and due process services. Our report does not include any reportable conditions* related to this objective.

Audit Objective: To assess the effectiveness and efficiency of BLS's audit and enforcement operations.

Conclusion: We concluded that BLS's audit operations were generally effective and efficient. However, we noted reportable conditions related to the employee time reporting system, risk assessments, and a travel policy (Findings 1 through 3). We also concluded that BLS's enforcement operations were generally effective and efficient. However, we noted reportable conditions related to the monitoring of case investigations and special license plates internal control* (Findings 4 and 5).

Audit Objective: To assess the effectiveness and efficiency of BLS's processing of requests for driver, vehicle, and other information maintained by the Department.

Conclusion: We concluded that BLS's processing of requests for driver, vehicle, and other information

* See glossary at end of report for definition.

maintained by the Department was effective and efficient. Our report does not include any reportable conditions related to this objective.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Bureau of Legal Services. Our audit was conducted in accordance with *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 audit scope did not include an examination of IAD's requirements under the International Registration Plan, which was audited separately by the Office of the Auditor General. The related audit report was issued in May 1999.

Our audit procedures included an examination of BLS's records and activities primarily for the period October 1, 1998 through March 31, 2000.

We conducted a preliminary review of BLS's operations to gain an understanding of its activities. We reviewed applicable laws, regulations, policies, and procedures to gain an understanding of internal control related to pertinent BLS functions. We used this information to perform a risk assessment in order to determine which areas to audit and the extent of our detailed analysis and testing.

We reviewed BLS's procedures for assigning legal case investigations, hearings, and Enforcement Division cases and analyzed related documentation to verify timely completion.

We reviewed IAD's annual audit plans, analyzed selected internal audit reports and supporting documentation, and verified IAD's compliance with applicable professional auditing standards*.

We analyzed documentation related to the Information Services Division's processing of information requests and verified that appropriate fees were charged to customers for the requests.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our report contains 5 findings and 5 corresponding recommendations. BLS's preliminary response indicated that it agreed with all of the recommendations.

BLS complied with 2 of the 3 prior audit recommendations. The other recommendation was rewritten for inclusion in this report.

* See glossary at end of report for definition.

February 9, 2001

The Honorable Candice S. Miller
Secretary of State
Treasury Building
Lansing, Michigan

Dear Secretary Miller:

This is our report on the performance audit of the Bureau of Legal Services, Department of State.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after the release of the audit report.

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

AUDITOR GENERAL

This page left intentionally blank.

TABLE OF CONTENTS

BUREAU OF LEGAL SERVICES DEPARTMENT OF STATE

INTRODUCTION

	<u>Page</u>
Executive Digest	1
Report Letter	5
Description of Agency	8
Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up	10

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

Effectiveness and Efficiency in Providing Legal Counsel and Due Process Services	12
Effectiveness and Efficiency of Audit and Enforcement Operations	12
1. Employee Time Reporting System	13
2. Risk Assessments	14
3. Travel Policy	16
4. Monitoring of Case Investigations	17
5. Special License Plates Internal Control	18
Effectiveness and Efficiency in Processing Information Requests	19

GLOSSARY

Glossary of Acronyms and Terms	20
--------------------------------	----

Description of Agency

The Department of State is one of the principal departments of Michigan government. The Department's executive officer is the Secretary of State, an elected official with a four-year term. The Department is responsible for registering motor vehicles; licensing motor vehicles, watercraft, snowmobiles, motorcycles, motor vehicle operators, chauffeurs, motor repair facilities, and motor vehicle dealers; and collecting the fees and taxes thereon. The Department is organized into the Executive Office and three main organizational units: Department Services Administration; Service Delivery Administration; and Regulatory Services Administration, of which the Bureau of Legal Services (BLS) is a part.

BLS's mission includes providing legal research and counsel to the Secretary of State and due process services afforded to Michigan residents under State law. This includes working with the Department of Attorney General on litigation and other court action that affect the Department of State. In addition, BLS provides audit and enforcement oversight within the Department of State and screened information from the Department's computer files to qualified agencies and individuals.

The Administrative Law Division is responsible for conducting all complex administrative hearings required by the Department's consumer protection, occupational licensure, and administrative review programs. The Administrative Law Division also performs several other administrative law support functions, such as preparing legislative bill drafts, drafting contracts and easements, and performing legal research and analysis.

The Compliance and Rules Division is responsible for initiating administrative actions against licensed vehicle dealers, motor vehicle repair facilities, automotive mechanics, and driver training schools. In addition, the Compliance and Rules Division is responsible for the review and resolution of complaints filed under the Michigan Campaign Finance Act and provides legal support for the Department's driver licensing and vehicle titling and registration programs.

The Driver License Appeal Division conducts driver-related administrative hearings at sites located around Michigan and prepares the Department's representatives for related circuit court appeals.

The Enforcement Division investigates criminal and fraud issues related to vehicle titles, registrations, insurance, driver licenses, personal identification cards, and retagged vehicles.

The Information Services Division provides information from the Department's computer files in the form of lists to qualified agencies and individuals.

The Internal Audit Division is responsible for audit services, which include audits of branch offices, financial and program audits, and audits of the International Registration Plan.

BLS had 90 employees as of August 31, 2000 and was appropriated approximately \$6.8 million for the fiscal year ended September 30, 2000.

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

Audit Objectives

Our performance audit of the Bureau of Legal Services (BLS), Department of State, had the following objectives:

1. To assess BLS's efforts in providing effective and efficient legal counsel and due process services.
2. To assess the effectiveness and efficiency of BLS's audit and enforcement operations.
3. To assess the effectiveness and efficiency of BLS's processing of requests for driver, vehicle, and other information maintained by the Department.

Audit Scope

Our audit scope was to examine the program and other records of the Bureau of Legal Services. Our audit was conducted in accordance with *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 audit scope did not include an examination of the Internal Audit Division's (IAD's) requirements under the International Registration Plan, which was audited separately by the Office of the Auditor General. The related audit report was issued in May 1999.

Audit Methodology

Our audit procedures, conducted from April 2000 through August 2000, included examination of BLS's records and activities primarily for the period October 1, 1998 through March 31, 2000.

Our methodology included a preliminary review of BLS's operations to gain an understanding of its activities. This included interviewing BLS personnel and identifying performance measures and performance objectives that BLS uses to evaluate its effectiveness and efficiency. Our preliminary review also included a review of applicable laws, regulations, policies, and procedures to gain an understanding of internal control related to pertinent BLS functions. We used this information to perform

a risk assessment in order to determine which areas to audit and the extent of our detailed analysis and testing.

To accomplish our first objective, we reviewed BLS's procedures for assigning and completing legal case investigations and hearings. We sampled case files and reviewed case file documentation for propriety, completeness, and timeliness. In addition, we analyzed the number of cases assigned to each investigator and hearings officer.

To accomplish our second objective, we reviewed IAD's annual audit plans and procedures for determining audits to perform. We analyzed selected internal audit reports and supporting documentation for timeliness and verified IAD's compliance with applicable professional auditing standards.

We reviewed the Enforcement Division's procedures for assigning cases and analyzed a sample of case files and related documentation for propriety, completeness, and timeliness. In addition, we reviewed the Division's internal control and procedures related to the issuance of special license plates.

To accomplish our third objective, we reviewed the Information Services Division's procedures for processing information requests. We analyzed documentation to determine if the Division processed requests accurately and timely and verified that appropriate fees were charged to customers for the requests.

Agency Responses and Prior Audit Follow-Up

Our report contains 5 findings and 5 corresponding recommendations. BLS's preliminary response indicated that it agreed with all of the recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of State to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

BLS complied with 2 of the 3 prior audit recommendations. The other recommendation was rewritten for inclusion in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS AND EFFICIENCY IN PROVIDING LEGAL COUNSEL AND DUE PROCESS SERVICES

COMMENT

Audit Objective: To assess the Bureau of Legal Services' (BLS's) efforts in providing effective and efficient legal counsel and due process services.

Conclusion: We concluded that BLS provided effective and efficient legal counsel and due process services. Our report does not include any reportable conditions related to this objective.

EFFECTIVENESS AND EFFICIENCY OF AUDIT AND ENFORCEMENT OPERATIONS

COMMENT

Background: BLS's Internal Audit Division's (IAD's) primary functions include audits of the Department of State's branch offices located throughout the State and audits of information related to registrants of the International Registration Plan. The main focus of the branch office audits are to verify compliance with cash and inventory control procedures; however, IAD activities also include the investigation of a variety of situations, such as cash overages or shortages, missing inventory, and office break-ins.

BLS's Enforcement Division investigates criminal and fraud issues related to vehicle titles, registrations, insurance, driver licenses, personal identification cards, and retagged vehicles. In addition, the Division acts as the liaison with local, State, and federal law enforcement agencies and driver and vehicle investigation units throughout the United States and Canada.

Audit Objective: To assess the effectiveness and efficiency of BLS's audit and enforcement operations.

Conclusion: We concluded that BLS's audit operations were generally effective and efficient. However, we noted reportable conditions related to the employee time reporting system, risk assessments, and a travel policy. **We also concluded that BLS's enforcement operations were generally effective and efficient.** However, we noted reportable conditions related to the monitoring of case investigations and special license plates internal control.

FINDING

1. Employee Time Reporting System

IAD did not use its employee time reporting system to assist in evaluating its operations.

An employee time reporting system should provide management with information useful in monitoring the effectiveness and efficiency of its operations. The system should accumulate and summarize employees' time worked on individual audit assignments. Management should use the employee time reporting system to monitor employee and agency operations. Our review of IAD time reporting and monitoring procedures disclosed:

- a. IAD did not use its employee time reporting system to monitor employee performance.

IAD employees record their hours worked on each audit assignment on an employee time reporting system; however, IAD did not monitor this system and was not certain that its information was complete and accurate.

We analyzed available information from the employee time reporting system and noted that hours reported for completion of similar audits varied significantly by auditor. We noted that the average number of hours to complete audits of branch offices, budgeted for 35 hours, ranged by auditor from 34 to 53 hours. Monitoring information from a time reporting system would allow management to detect such variances in employee productivity and help to identify training needs recommendations to increase employee efficiency.

- b. IAD did not accumulate audit performance information to evaluate its operations.

Section 520.06 of the *Standards for the Professional Practice of Internal Auditing* requires the director of IAD to periodically submit activity reports to senior management that compare IAD's performance with its goals and audit plan. In addition, this standard also requires IAD to provide explanations for major variances between its performance and its goals and audit plan and to indicate actions taken or needed.

IAD submits activity reports to management that detail the status of current and completed audit assignments. However, IAD does not use information from its employee time reporting system to actively monitor the effectiveness and efficiency of its operations. IAD should develop procedures to accumulate, monitor, and compare employee hours worked on audit assignments to budgeted hours. This would enable IAD to detect and evaluate inefficient operations and to make recommendations to increase productivity.

RECOMMENDATION

We recommend that IAD use its employee time reporting system to assist in evaluating its operations.

AGENCY PRELIMINARY RESPONSE

BLS agreed with this recommendation. BLS informed us that IAD has submitted a request for computer software resources for development of a new employee time reporting system. IAD believes that a new employee time reporting system will provide it with meaningful data to adequately evaluate its operations.

FINDING

2. Risk Assessments

IAD did not perform risk assessments to identify the most effective allocation of its audit resources.

Section 520.04 of the *Standards for the Professional Practice of Internal Auditing* requires the director of IAD to perform risk assessments when establishing IAD's audit work plan. A risk assessment process should include identification of auditable activities and determination of the significance of and likelihood that conditions or events could adversely affect the organization. Possible items to

consider when performing the risk assessment may include: financial and economic conditions, asset size, complexity of the activities, adequacy of the system of internal control, and the degree of usage of computerized information systems. The risk assessment process should lead to the establishment of audit work plan priorities.

IAD's mission statement requires that IAD assist in ensuring that the Department is accountable and performs its functions effectively and efficiently. This includes a full range of audit services, including performing audits of branch offices, financial and program audits, and audits of the International Registration Plan. However, our review of IAD audit work plans for fiscal years 1998-99 and 1999-2000 indicated that IAD allocated 63% of its available audit hours (total audit hours available, excluding hours assigned for the International Registration Plan) for audits of branch offices and allocated only 37% of its resources for the review of financial and program-related operations.

We reviewed the 75 branch office audit reports completed by IAD from October 1, 1998 through March 31, 2000 and noted that only 35 (47%) reports contained recommendations. These recommendations appear to have limited impact on Department operations and branch offices. The performance of risk assessments may have identified a more effective use of IAD resources.

IAD stated that, because of limited audit resources, it could not sufficiently cover all audit areas noted in its mission statement. This makes the performance of risk assessments essential to ensure that IAD uses its resources on audit areas considered to be its highest priority.

RECOMMENDATION

We recommend that IAD perform risk assessments to identify the most effective allocation of its audit resources.

AGENCY PRELIMINARY RESPONSE

BLS agreed with this recommendation and informed us that IAD will prepare a formal risk assessment when it prepares its annual audit work plan.

FINDING

3. Travel Policy

IAD had not developed an official employee travel policy and did not actively monitor employees' time reported in travel status.

Section 2.1 of the State's *Standardized Travel Regulations* states that the head of each agency must authorize and approve all travel. Each department has the discretion to develop travel policies that are in the State's best interest.

We reviewed IAD's employee time reporting data for audits completed during our audit period. For a four-month period, one IAD employee reported commuting 3 hours during an 8-hour work day 48 times. This was not in compliance with IAD's informal travel policy and was an inefficient use of audit resources. IAD's informal travel policy allows employees 1 hour per day in travel status to commute to locations outside their official workstations. IAD did not regularly monitor employees' time reporting and was not aware of the discrepancy.

IAD would benefit from an official employee travel policy because its staff are located throughout the State and are regularly in travel status. The travel policy should include guidelines related to the maximum time allowed for employees to commute to work locations and detail when it would be more efficient for employees to remain in overnight travel status. In addition, monitoring employees' time reported in travel status would provide IAD with assurance that employees' travel is in the State's best interest and in accordance with its policy.

RECOMMENDATION

We recommend that IAD develop an official employee travel policy and actively monitor employees' time reported in travel status.

AGENCY PRELIMINARY RESPONSE

BLS agreed with this recommendation and informed us that IAD will develop a formal travel policy. BLS also informed us that, during fiscal year 2000-01, IAD requested software and/or programming assistance to develop a new employee time reporting system.

FINDING

4. Monitoring of Case Investigations

The Enforcement Division did not have an accurate case management system to monitor and help ensure timely completion of case investigations.

The Division's policy book states that investigators should close case investigations within 90 days of receiving the case. Further, the policy requires that, if a case is to remain open past the 90 days, the investigator must submit a supplemental report noting the status of the investigation and the reasons that the case should remain open.

We reviewed the Division's case management database, which listed 623 cases open as of March 31, 2000. We determined that the Division had 480 (77%) of the cases in its possession longer than 90 days as shown in the following table:

<u>Length of Time Since Division Received Cases</u>	<u>Number of Cases</u>
More than 90 days but less than or equal to 1 year	163
More than 1 year but less than or equal to 2 years	159
More than 2 years but less than or equal to 3 years	155
More than 3 years	3
Total	<u>480</u>

We reviewed 22 of the 480 cases. Our review disclosed that the information in the Division's database was not accurate because 7 of the cases were already completed. In addition, the Division could not locate 2 case files. The Division informed us that inaccuracies existed because of problems in updating and consolidating the database. After our inquiry, the Division reviewed the database and related case files and determined that only 256 cases were open, 201 of which were received more than 90 days prior to the review.

In addition, only 2 of 13 cases from our review that required supplemental reports detailing the case status or the reasons for remaining open actually had such reports. The Division had received these cases, on average, 13 months prior to March 31, 2000.

An accurate case management system would enable the Division to actively monitor all open cases to help ensure the timely completion of case investigations. Also, when cases cannot be completed on a timely basis, preparing supplemental reports helps to ensure continued work on the cases and documents the status of the investigations.

RECOMMENDATION

We recommend that the Division develop an accurate case management system to monitor and help ensure timely completion of case investigations.

AGENCY PRELIMINARY RESPONSE

BLS agreed with this recommendation. BLS informed us that the Enforcement Division continues to work with the Department's Systems Planning and Implementation Division to complete the implementation of its case management database system. In addition, BLS informed us that the Enforcement Division is in the process of reviewing case files from a two-year period to establish a new time period expectation for completing investigations.

FINDING

5. Special License Plates Internal Control

The Enforcement Division did not have adequate internal control over the distribution and inventory of special license plates.

The Management and Budget Act (Act 431, P.A. 1984) states that each accounting and administrative control system shall include a plan of organization that provides for a separation of duties and responsibilities among employees.

The Division is responsible for the distribution and inventory of approximately 6,700 special license plates issued to authorized agencies located throughout the State.

Our assessment of the Division's internal control procedures disclosed that one employee was responsible for the accounting, distribution, and custody of the special license plates. The employee received special license plates from the branch offices for future distribution; issued special license plates to authorized agencies; maintained special license plate inventory and distribution records;

issued annual renewal license tabs; and on occasion, collected funds for the purchase of the special license plates and renewal tabs.

The Division stated that, for confidentiality purposes, only limited staff should work with the special license plates. However, because of the lack of separation of employee duties, the Division could not ensure the accountability of the special license plates or verify their distribution only to authorized agencies.

RECOMMENDATION

We recommend that the Division develop adequate internal control over the distribution and inventory of special license plates.

AGENCY PRELIMINARY RESPONSE

BLS agreed with this recommendation. BLS informed us that the Enforcement Division has met with the Department's Systems Planning and Implementation Division to develop a computer-based tracking system that will provide separation of duties and an inventory control history for the special plates program. BLS anticipates that the program will be in operation by March 31, 2001.

EFFECTIVENESS AND EFFICIENCY IN PROCESSING INFORMATION REQUESTS

COMMENT

Background: The Information Services Division provides screened information from the Department's major computer information files, in the form of lists, to qualified agencies and individuals. Information Services Division customers include government, business, educational and research institutions, internal agencies, and the public. Lists are purchased or, in some cases, provided at no charge.

Audit Objective: To assess the effectiveness and efficiency of BLS's processing of requests for driver, vehicle, and other information maintained by the Department.

Conclusion: We concluded that BLS's processing of requests for driver, vehicle, and other information maintained by the Department was effective and efficient. Our report does not include any reportable conditions related to this objective.

Glossary of Acronyms and Terms

BLS	Bureau of Legal Services.
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.
IAD	Internal Audit Division.
internal control	The management control environment, management information system, and control policies and procedures established by management to provide reasonable assurance that goals are met; that resources are used in compliance with laws and regulations; and that valid and reliable performance related information is obtained and reported.
mission	The agency's main purpose or the reason the agency was established.
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.
professional auditing standards	generally accepted auditing standards and <i>Standards for the Professional Practice of Internal Auditing</i> .

reportable condition

A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.