

PERFORMANCE AND FINANCIAL AUDIT
OF THE
HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND

October 1, 2000 through September 30, 2003

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance and Financial Audit

Report Number:
63-420-03

Homeowner Construction Lien Recovery Fund

Department of Labor and Economic Growth

Released:
September 2004

The Homeowner Construction Lien Recovery Fund (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. HCLRF is self-supporting from fees charged to licensed residential builders, various contractors, and other lien claimants.

Audit Objectives:

1. To assess the effectiveness of HCLRF's operations.
2. To audit HCLRF's financial statements as of and for the fiscal years ended September 30, 2003, September 30, 2002, and September 30, 2001.
3. 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.

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Audit Conclusions:

1. Our assessment concluded that HCLRF's operations were generally effective. Our report does not include any reportable conditions related to this audit objective.
2. We expressed an unqualified opinion on HCLRF's financial statements.
3. 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.

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

September 1, 2004

Mr. David C. Hollister, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Hollister:

This is our report on the performance and financial audit of the Homeowner Construction Lien Recovery Fund. The financial portion of our audit covered the period October 1, 2000 through September 30, 2003.

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

Our comments are organized by audit objective.

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

AUDITOR GENERAL

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GLOSSARY

Glossary of Acronyms and Terms

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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 was administered by the Department of Consumer and Industry Services (CIS) through December 6, 2003. However, on October 2, 2003, the Governor issued Executive Order No. 2003-18, which renamed CIS as the Department of Labor and Economic Growth. Executive Order No. 2003-18 became effective on December 7, 2003.

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, plumbing contractors, mechanical contractors, and other lien claimants. HCLRF is to maintain a minimum balance of \$1 million. If on December 1 of any fiscal year, the 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 of September 30, 2003, HCLRF's balance was \$980,751 and remained below the \$1 million threshold as of December 1, 2003. As indicated in Note 5 of the notes to the financial statements, the Department intends to impose an additional \$50 assessment on the members of HCLRF during calendar year 2004.

For fiscal years 2002-03, 2001-02, and 2000-01, HCLRF reported expenditures and transfers out of \$1,295,168, \$1,036,246, and \$1,122,374, respectively, and revenues and other financing sources of \$350,818, \$428,498, and \$625,223, respectively. As of September 30, 2003, HCLRF had one direct employee. In addition, the Department provides fiscal and management services to HCLRF.

* See glossary at end of report for definition.

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) had the following audit objectives:

1. To assess the effectiveness* of HCLRF's operations.
2. To audit HCLRF's financial statements as of and for the fiscal years ended September 30, 2003, September 30, 2002, and September 30, 2001.
3. 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.

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, 2000 through September 30, 2003. 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 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. Also, we evaluated HCLRF lien claim files to assess the effectiveness of HCLRF's operations.

Prior Audit Follow-Up

We released our prior performance and financial audit of the Homeowner Construction Lien Recovery Fund, Department of Consumer and Industry Services, in June 2001. The prior audit did not have any recommendations.

* See glossary at end of report for definition.

COMMENTS

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.** Our report does not include any reportable conditions* related to this audit objective.

Noteworthy Accomplishments: The Department of Consumer and Industry Services (CIS) implemented a new Web-based Oracle platform database during fiscal year 2002-03. This database maintains HCLRF's membership files for all of its members, including the receipt of membership fee assessments. The database is used to create membership reports that are provided to the individual licensing boards to help ensure that HCLRF membership fee assessments are collected. The database is also used to monitor the receipt, processing, and referral of claims made against HCLRF and can provide timely information to both the Department (formerly CIS, now the Department of Labor and Economic Growth) and the Legislature.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit HCLRF's financial statements as of and for the fiscal years ended September 30, 2003, September 30, 2002, and September 30, 2001.

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

* See glossary at end of report for definition.

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*.

* See glossary at end of report for definition.

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INDEPENDENT AUDITOR'S REPORTS
AND FINANCIAL STATEMENTS



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

January 16, 2004

Mr. David C. Hollister, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Hollister:

We have audited the financial statements of the Homeowner Construction Lien Recovery Fund as of and for the fiscal years ended September 30, 2003, September 30, 2002, and September 30, 2001, as identified in the table of contents. These financial statements are the responsibility of the Fund's management and the Department of Labor and Economic Growth'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 the 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 financial statements present only the Homeowner Construction Lien Recovery Fund and do not purport to, and do not, present fairly the financial position of the State of Michigan or its special revenue funds as of September 30, 2003, September 30, 2002, and September 30, 2001 and the changes in financial position thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2003, September 30, 2002, and September 30, 2001 and the changes in financial position thereof 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 January 16, 2004 on our tests of the 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.

AUDITOR GENERAL

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND
 Balance Sheet
As of September 30

| | 2003 | 2002 | 2001 |
|--|--------------|--------------|--------------|
| ASSETS | | | |
| Equity in State Treasurer's Common Cash (Note 4) | \$ 1,082,198 | \$ 1,971,683 | \$ 2,755,693 |
| Total Assets | \$ 1,082,198 | \$ 1,971,683 | \$ 2,755,693 |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities: | | | |
| Warrants outstanding | \$ 71,612 | \$ 4,000 | \$ 12,080 |
| Accounts payable and other liabilities | 29,226 | 42,206 | 210,094 |
| Amounts due to other funds | 609 | 376 | 670 |
| Total Liabilities | \$ 101,447 | \$ 46,582 | \$ 222,844 |
| Fund Balance - Reserved | 0 | 16,830 | 0 |
| Fund Balance - Unreserved (Note 4) | 980,751 | 1,908,271 | 2,532,849 |
| Total Liabilities and Fund Balance | \$ 1,082,198 | \$ 1,971,683 | \$ 2,755,693 |

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

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

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|---------------------|---------------------|---------------------|
| REVENUES | | | |
| Fund assessments (Note 4) | \$ 288,820 | \$ 337,641 | \$ 425,207 |
| Interest from State Treasurer's Common Cash | 22,075 | 47,081 | 159,511 |
| Other | <u>39,923</u> | <u>43,776</u> | <u>40,505</u> |
| Total Revenues (Note 4) | <u>\$ 350,818</u> | <u>\$ 428,498</u> | <u>\$ 625,223</u> |
| | | | |
| EXPENDITURES | | | |
| Fund administrative expenditures | \$ 122,431 | \$ 234,182 | \$ 98,139 |
| Department of Attorney General legal fees | 435,385 | 366,272 | 441,495 |
| Lien claim payments | <u>722,966</u> | <u>418,351</u> | <u>568,798</u> |
| Total Expenditures | <u>\$ 1,280,782</u> | <u>\$ 1,018,805</u> | <u>\$ 1,108,432</u> |
| Excess of Revenues Over (Under) Expenditures | <u>\$ (929,964)</u> | <u>\$ (590,307)</u> | <u>\$ (483,209)</u> |
| | | | |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers to the General Fund | <u>\$ (14,386)</u> | <u>\$ (17,441)</u> | <u>\$ (13,942)</u> |
| Total Other Financing Sources (Uses) | <u>\$ (14,386)</u> | <u>\$ (17,441)</u> | <u>\$ (13,942)</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses (Note 4) | \$ (944,350) | \$ (607,748) | \$ (497,151) |
| | | | |
| Fund Balance - Beginning of fiscal year | <u>1,925,101</u> | <u>2,532,849</u> | <u>3,030,000</u> |
| Fund Balance - End of fiscal year (Note 4) | <u>\$ 980,751</u> | <u>\$ 1,925,101</u> | <u>\$ 2,532,849</u> |

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

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

| <u>Statutory/Budgetary Basis</u> | 2003 | | Variance Favorable (Unfavorable) |
|---|----------------|--------------|--|
| | Budget | Actual | |
| REVENUES AND OTHER SOURCES | | | |
| Miscellaneous (Note 4) | \$ 350,818 | \$ 350,818 | \$ 0 |
| Total Revenues and Other Sources | \$ 350,818 | \$ 350,818 | \$ 0 |
| EXPENDITURES AND TRANSFERS OUT | | | |
| Fund administrative expenditures, legal fees, lien claim payments, and transfers out | \$ 1,551,616 | \$ 1,295,168 | \$ 256,448 |
| Total Expenditures and Transfers Out | \$ 1,551,616 | \$ 1,295,168 | \$ 256,448 |
| Revenues and Other Sources Over (Under) Expenditures and Transfers Out (Statutory/Budgetary Basis) | \$ (1,200,798) | \$ (944,350) | \$ 256,448 |
| Reconciling Items: | | | |
| Encumbrances at September 30 | | \$ 0 | |
| Funds not annually budgeted | | 0 | |
| Net Reconciling Items | | \$ 0 | |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Transfers Out (GAAP Basis) | | \$ (944,350) | |
| FUND BALANCE (GAAP BASIS) | | | |
| Beginning balance | | 1,925,101 | |
| Ending balance (GAAP Basis) (Note 4) | | \$ 980,751 | |

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

| 2002 | | | 2001 | | |
|-----------------------|---------------------|----------------------------------|---------------------|---------------------|----------------------------------|
| Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| \$ 428,498 | \$ 428,498 | \$ 0 | \$ 625,223 | \$ 625,223 | \$ 0 |
| \$ 428,498 | \$ 428,498 | \$ 0 | \$ 625,223 | \$ 625,223 | \$ 0 |
| \$ 1,535,140 | \$ 1,053,076 | \$ 482,064 | \$ 1,530,842 | \$ 1,122,374 | \$ 408,468 |
| \$ 1,535,140 | \$ 1,053,076 | \$ 482,064 | \$ 1,530,842 | \$ 1,122,374 | \$ 408,468 |
| <u>\$ (1,106,642)</u> | <u>\$ (624,578)</u> | <u>\$ 482,064</u> | <u>\$ (905,619)</u> | <u>\$ (497,151)</u> | <u>\$ 408,468</u> |
| | \$ 16,830 | | | \$ 0 | |
| | <u>0</u> | | | <u>0</u> | |
| | \$ 16,830 | | | \$ 0 | |
| | \$ (607,748) | | | \$ (497,151) | |
| | <u>2,532,849</u> | | | <u>3,030,000</u> | |
| | <u>\$ 1,925,101</u> | | | <u>\$ 2,532,849</u> | |

Notes to the Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial statements report the financial position and the changes in financial position of the Homeowner Construction Lien Recovery Fund (HCLRF) as of and for the fiscal years ended September 30, 2003, September 30, 2002, and September 30, 2001. HCLRF is a 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)*.

During the audit period, HCLRF was part of the Department of Consumer and Industry Services (CIS). On October 2, 2003, the Governor issued Executive Order No. 2003-18, which renamed CIS as the Department of Labor and Economic Growth. Executive Order No. 2003-18 became effective on December 7, 2003.

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, Budgetary Control, and Legal Compliance; Treasurer's Common Cash; Pension Benefits and Other Postemployment Benefits; and Contingencies and Commitments.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial statements contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred;

however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial statements present only the Homeowner Construction Lien Recovery Fund. Accordingly, they do not purport to, and do not, present fairly the financial position and changes in financial position of the State of Michigan or its special revenue funds in conformity with generally accepted accounting principles.

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, CIS 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 has declined on a continual basis from fiscal year 1998-99 through 2002-03. As of September 30, 1999, HCLRF's fund balance was \$3,384,823; as of September 30, 2003, HCLRF's fund balance was \$980,751:

| September 30 Fiscal Year Ended | Ending Fund Balance | Change From Prior Year |
|-----------------------------------|---------------------|---------------------------|
| 1994 | \$ 1,701,002 | |
| 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 | \$ 3,030,000 | \$ (354,823) |
| 2001 | \$ 2,532,849 | \$ (497,151) |
| 2002 | \$ 1,925,101 | \$ (607,748) |
| 2003 | \$ 980,751 | \$ (944,350) |

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 (formerly CIS, now the Department of Labor and Economic Growth) 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 in the table, the HCLRF balance was below \$1 million at the close of fiscal year 2002-03. The HCLRF balance remained below \$1 million as of December 1, 2003.

Note 5 Subsequent Event

In December 2003, pursuant to Section 570.1201(2) of the *Michigan Compiled Laws*, the director of the Department signed a letter of notification to the Legislature disclosing his intent to impose an additional \$50 assessment on every member of HCLRF. This assessment would affect all active members, which includes all licensed residential builders, residential maintenance and alteration contractors, electrical contractors, fire alarm contractors, plumbing contractors, mechanical contractors, and the subcontractor/supplier members. HCLRF anticipates that the assessment collection process will begin in spring 2004 to help ensure sufficient funding for the continued operations of HCLRF.

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AUDITOR GENERAL

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

January 16, 2004

Mr. David C. Hollister, Director
Department of Labor and Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Hollister:

We have audited the financial statements of the Homeowner Construction Lien Recovery Fund as of and for the fiscal years ended September 30, 2003, September 30, 2002, and September 30, 2001, as identified in the table of contents, and have issued our report thereon dated January 16, 2004. 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 internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 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 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.

AUDITOR GENERAL

GLOSSARY

Glossary of Acronyms and Terms

| | |
|--------------------------|---|
| CIS | Department of Consumer and Industry Services. |
| effectiveness | Program success in achieving mission and goals. |
| 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 | generally accepted accounting principles. |
| HCLRF | Homeowner Construction Lien Recovery Fund. |
| internal control | A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. |
| licensee | A licensed residential builder, residential maintenance and alteration contractor, electrical contractor, fire alarm contractor, plumbing contractor, or mechanical contractor. |
| material weakness | A reportable condition related to the design or operation of internal control that 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 may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. |
| 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 that, in the auditor's judgment, 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 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 that the financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting.