



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



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

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

Audit report information can be accessed at:

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Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Financial Audit*

*Homeowner Construction Lien Recovery Fund  
 Department of Labor and Economic Growth  
 October 1, 2005 through September 30, 2007*

Report Number:  
 641-0420-08

Released:  
 November 2008

*A financial audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial schedules and/or financial statements. This financial audit of the Homeowner Construction Lien Recovery Fund was conducted as part of the constitutional responsibility of the Office of the Auditor General.*

**Financial Statements:**

**Auditor's Report Issued**

We issued an unqualified opinion on the Homeowner Construction Lien Recovery Fund's financial statements.

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**Internal Control Over Financial Reporting**

We identified one significant deficiency in internal control over financial reporting (Finding 1). We consider Finding 1 to be a material weakness.

The Fund's internal control did not ensure that the Fund obtained supporting documentation for Department of Attorney General legal service costs (Finding 1).

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**Noncompliance and Other Matters  
 Material to the Financial Statements**

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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**Background:**

The Fund 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 Labor and Economic Growth.

The Fund 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 the Fund are entitled to recover from it. The Fund will pay a maximum of \$100,000 per residential structure for unsatisfied liens. If the Department makes a payment from the Fund as a result of actions or inactions of a licensee, the Fund will file a complaint against the licensee. The licensee's license may be revoked until the licensee has repaid the Fund the amount paid plus the cost of litigation and interest.

The Fund is self-supporting from fees charged to licensed residential builders, various contractors, and other lien claimants.

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**Agency Response:**

Our audit report contains 1 finding and 1 corresponding recommendation. The Fund's preliminary response indicates that it agrees with the recommendation.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General  
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Lansing, Michigan 48913

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

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General



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

November 25, 2008

Mr. Stanley Pruss, Director  
Department of Labor and Economic Growth  
Ottawa Building  
Lansing, Michigan

Dear Mr. Pruss:

This is our report on the financial audit of the Homeowner Construction Lien Recovery Fund, Department of Labor and Economic Growth, for the period October 1, 2005 through September 30, 2007.

This report contains our report summary; our independent auditor's report on the financial statements; and the Homeowner Construction Lien Recovery Fund financial statements, required supplementary information, and supplementary information. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters; our finding, recommendation, and agency preliminary response; and a glossary of acronyms and terms.

The agency preliminary response was taken from the agency's response 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



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# INDEPENDENT AUDITOR'S REPORT



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

## Independent Auditor's Report on the Financial Statements

Mr. Stanley Pruss, Director  
Department of Labor and Economic Growth  
Ottawa Building  
Lansing, Michigan

Dear Mr. Pruss:

We have audited the accompanying financial statements of the Homeowner Construction Lien Recovery Fund, Department of Labor and Economic Growth, as of and for the fiscal years ended September 30, 2007 and September 30, 2006, as identified in the table of contents. 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 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 1, 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, 2007 and September 30, 2006 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, 2007 and September 30, 2006 and the changes in financial position 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 our report dated October 29, 2008 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison schedule on pages 20 and 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The supplementary information on page 24 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

AUDITOR GENERAL

October 29, 2008



# FINANCIAL STATEMENTS

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND  
 Department of Labor and Economic Growth  
 Balance Sheet  
As of September 30

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Equity in common cash (Note 2)	\$ 3,716,272	\$ 3,758,513
Total assets	<u>\$ 3,716,272</u>	<u>\$ 3,758,513</u>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Warrants outstanding	\$ 149,670	\$ 60,690
Accounts payable and other liabilities	184,116	96,546
Amounts due to other funds	486	1,436
Total liabilities	\$ 334,271	\$ 158,672
Fund balance - Unreserved (Note 4)	<u>3,382,001</u>	<u>3,599,841</u>
Total liabilities and fund balance	<u>\$ 3,716,272</u>	<u>\$ 3,758,513</u>

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

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

	<u>2007</u>	<u>2006</u>
<b>REVENUES</b>		
Fund assessments (Note 4)	\$ 1,288,257	\$ 463,262
Interest from common cash	121,289	152,197
Other	<u>62,169</u>	<u>18,083</u>
Total revenues	<u>\$ 1,471,714</u>	<u>\$ 633,542</u>
<b>EXPENDITURES</b>		
Fund administrative expenditures	\$ 115,980	\$ 122,793
Department of Attorney General legal fees	499,835	413,642
Lien claim payments	<u>1,072,723</u>	<u>940,406</u>
Total expenditures	<u>\$ 1,688,537</u>	<u>\$ 1,476,842</u>
Excess of revenues over (under) expenditures	<u>\$ (216,823)</u>	<u>\$ (843,299)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers to the General Fund	<u>\$ (1,017)</u>	<u>\$ (973)</u>
Total other financing sources (uses)	<u>\$ (1,017)</u>	<u>\$ (973)</u>
Excess of revenues and other sources over (under) expenditures and other uses	\$ (217,840)	\$ (844,272)
Fund balance - Beginning of fiscal year	<u>3,599,841</u>	<u>4,444,113</u>
Fund balance - End of fiscal year (Note 4)	<u><u>\$ 3,382,001</u></u>	<u><u>\$ 3,599,841</u></u>

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

## Notes to the Financial Statements

### Note 1 Significant Accounting Policies

#### a. Organization

The Homeowner Construction Lien Recovery Fund 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 Labor and Economic Growth.

The Fund 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 the Fund are entitled to recover from it. The Fund will pay a maximum of \$100,000 per residential structure for unsatisfied liens. If the Department makes a payment from the Fund as a result of actions or inactions of a licensee\*, the Fund will file a complaint against the licensee. The licensee's license may be revoked until the licensee has repaid the Fund the amount paid plus the cost of litigation and interest.

The Fund 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.

#### b. Reporting Entity

The accompanying financial statements report the financial position and the changes in financial position of the Homeowner Construction Lien Recovery Fund, Department of Labor and Economic Growth, as of and for the fiscal years ended September 30, 2007, and September 30, 2006. The Fund 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)*.

\* See glossary at end of report for definition.

The notes accompanying these financial statements relate directly to the Homeowner Construction Lien Recovery Fund. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash; and pension benefits and other postemployment benefits.

c. Measurement Focus, Basis of Accounting, and Financial Statement 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 accounting principles generally accepted in the United States of America. 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 the changes in financial position of the State of Michigan or its special revenue funds in conformity with accounting principles generally accepted in the United States of America.

Note 2 Deposits

Custodial Credit Risk

All of the Fund's deposits are managed by the State Treasurer. "Equity in common cash" represents an interest in the State's common cash pool, which is used by most State funds as a short-term investment vehicle. The Fund's deposits are included in the State of Michigan's equity in common cash.

The Fund's common cash balances were as follows:

	As of September 30	
	2007	2006
Equity in common cash	\$3,716,272	\$3,758,513

Governmental Accounting Standards Board (GASB) Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires certain disclosures related to custodial credit risk for deposits. Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Fund's deposits will not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by pledging financial institutions, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Fund's name. The State Treasurer evaluates each financial institution it deposits common cash funds with and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories. To lessen credit risk as of September 30, 2007, 0.2% of common cash deposits were covered by federal depository insurance and 99.6% were collateralized with securities held in the State's name by the State's agent. The remaining 0.2% of the total common cash fund was uninsured and uncollateralized and exposed to custodial credit risk. To lessen credit risk as of September 30, 2006, 2.3% of common cash deposits were covered by federal depository insurance and 97.4% were collateralized with securities held in the State's name by the State's agent. The remaining 0.3% of the total common cash fund was uninsured and uncollateralized and exposed to custodial credit risk.

Note 3 Future Claims and Cost of Settling Future Claims

Section 570.1203 of the *Michigan Compiled Laws* provides that a lien claim will be paid from the Fund only on a court order and that the Attorney General will defend the Fund. 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

On January 3, 2007, the Construction Lien Act was amended by Act 497, P.A. 2006, and Act 572, P.A. 2006, to eliminate the special assessment that could be requested by the director of the Department of Labor and Economic Growth if the Fund's balance fell below \$1 million on December 1 of any year, as provided for in the *Michigan Compiled Laws*. The amended act requires new licensees to pay an initial membership fee of \$10 and to pay a membership renewal fee of \$10 per year for each year for which the license is to be valid at the time of their license renewal period. This fee requirement will affect all active members, which includes all licensed residential builders, residential maintenance and alteration contractors, electrical contractors, plumbing contractors, and mechanical contractors. The supplier/subcontractor members are required to pay an initial membership fee of \$50 and subsequently pay \$30 membership renewal fee every 3 years thereafter. Supplier members are required to maintain a separate membership for each retail location that they operate.

The membership renewal fee will be suspended if the Fund's fund balance exceeds \$6 million dollars and will be reinstated after the balance is reduced to \$4 million. However, if the fund balance is depleted, the only remedy is to seek amendatory language to the Construction Lien Act.



## REQUIRED SUPPLEMENTARY INFORMATION

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND  
 Department of Labor and Economic Growth  
 Budgetary Comparison Schedule  
Fiscal Years Ended September 30

	2007		Variance
Statutory/Budgetary Basis	Budget	Actual	Favorable (Unfavorable)
<b>REVENUES AND OTHER SOURCES</b>			
Miscellaneous	\$ 1,471,714	\$ 1,471,714	\$ 0
Total revenues and other sources	\$ 1,471,714	\$ 1,471,714	\$ 0
<b>EXPENDITURES AND TRANSFERS OUT</b>			
Fund administrative expenditures, legal fees, lien claim payments, and transfers out	\$ 1,723,017	\$ 1,689,554	\$ 33,463
Total expenditures and transfers out	\$ 1,723,017	\$ 1,689,554	\$ 33,463
Revenues and other sources over (under) expenditures and transfers out (statutory/budgetary basis)	\$ (251,303)	\$ (217,840)	\$ 33,463
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)		\$ (217,840)	
<b>FUND BALANCE (GAAP BASIS)</b>			
Beginning balance		3,599,841	
Ending balance (GAAP basis)		\$ 3,382,001	

2006		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 633,542	\$ 633,542	\$ 0
\$ 633,542	\$ 633,542	\$ 0
\$ 1,534,073	\$ 1,477,815	\$ 56,258
\$ 1,534,073	\$ 1,477,815	\$ 56,258
<u>\$ (900,531)</u>	<u>\$ (844,272)</u>	<u>\$ 56,258</u>
	\$ 0	
	<u>0</u>	
	\$ 0	
	\$ (844,272)	
	<u>4,444,113</u>	
	<u>\$ 3,599,841</u>	



## SUPPLEMENTARY INFORMATION

## Supplementary Information

The Department of Labor and Economic Growth (DLEG) informed us that from September 30, 2007 through October 1, 2008, the Homeowner Construction Lien Recovery Fund's fund balance decreased by \$1,037,260, which represents a 30.7% decrease. The fund balance decrease resulted from a significant decrease in revenue and a significant increase in expenditures for the period.

The Fund's decrease in revenue resulted primarily from a decrease in license applications and a reduction in licensee fees. DLEG informed us that significant changes to the Builders' Licensing Law and the new requirement of a 60-hour pre-licensing course resulted in a decrease in the number of license applicants. Also, DLEG stated that amendments to the Construction Lien Act reduced initial license fees from \$50 to \$10.

The Fund's increase in expenditures resulted primarily from increases in new claims, increased total value of new claims, and increased legal expenses. DLEG informed us that during fiscal years 2006-07 and 2007-08, new claims totaled 486 and 494, respectively, compared with 240 new claims in fiscal year 2005-06. Also, DLEG stated that the value of new claims grew from \$7.5 million in fiscal year 2005-06 to \$15.0 million in fiscal year 2006-07 and to \$25.0 million in fiscal year 2007-08. Further, DLEG stated that the increase in new claims increased the Fund's legal expenses from approximately \$500,000 in fiscal year 2006-07 to \$1.0 million in fiscal year 2007-08.

According to DLEG, the Fund's decreased fund balance will negatively impact the Fund's continued ability to pay future claims.

INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL AND COMPLIANCE



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

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

Mr. Stanley Pruss, Director  
Department of Labor and Economic Growth  
Ottawa Building  
Lansing, Michigan

Dear Mr. Pruss:

We have audited the financial statements of the Homeowner Construction Lien Recovery Fund, Department of Labor and Economic Growth, as of and for the fiscal years ended September 30, 2007 and September 30, 2006, as identified in the table of contents, and have issued our report thereon dated October 29, 2008. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the next paragraph, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in

accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in Finding 1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency identified in the third paragraph of this section to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

The agency preliminary response to the finding identified in our audit is included in the body of our report. We did not audit the agency preliminary response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the Department, 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

October 29, 2008

FINDING, RECOMMENDATION,  
AND AGENCY PRELIMINARY RESPONSE

## **FINDING**

### **1. Internal Control\* Over Legal Costs**

The Homeowner Construction Lien Recovery Fund's internal control did not ensure that the Fund obtained supporting documentation for Department of Attorney General legal service costs. As a result, the Fund could not verify the accuracy of Department of Attorney General legal service billings, which amounted to \$234,590 and \$284,807 for fiscal year 2006-07 and fiscal year 2005-06, respectively. In relation to the value of the Fund, we consider this condition to be a material weakness in internal control over financial reporting.

The Fund obtains legal representation from Department of Attorney General staff attorneys and from Special Assistant Attorneys General, who are private attorneys contracted with by the Department of Attorney General to adequately defend the Fund.

A memorandum of understanding between the Department of Attorney General and the Fund requires the Department of Attorney General to invoice the Fund on a quarterly basis for services rendered during the quarter. Also, Fund management has requested the Department of Attorney General to provide itemized billing statements that would allow Fund management to properly manage the allocation of the funding and to avoid duplication of effort.

Our review disclosed that the Department of Attorney General's quarterly invoices did not provide the level of detail needed for approval by Fund management. For example, the invoices did not contain a listing of cases for legal services provided; the name of the attorney who provided the legal services for each case; and the dates, description, and total hours of the legal services provided during the quarter. This level of billing itemization is needed by Fund management when calculating the total legal costs associated with a case when a claim from the Fund has been paid and is also needed to ensure that duplication of effort is not occurring. Such information is needed in efforts to recover from the licensee all claims paid and legal costs incurred by the Fund as a result of the licensee's failure to pay a lien claimant.

\* See glossary at end of report for definition.

The Department of Attorney General has not responded to the Fund's requests for itemized billing statements. However, the Department of Attorney General requires from its contracted Special Assistant Attorneys General itemized billing statements for all legal services provided in defense of the Fund.

### **RECOMMENDATION**

We recommend that the Fund improve its internal control to ensure that the Fund obtains supporting documentation for Department of Attorney General legal service costs.

### **AGENCY PRELIMINARY RESPONSE**

DLEG agrees and will work with the Department of Attorney General to resolve this matter.

DLEG informed us that the current memorandum of understanding between the Department of Attorney General and the Bureau of Commercial Services (for Fund activities) states: "The Department of Attorney General will invoice the Fund on a quarterly basis for services rendered during the quarter." In DLEG's opinion, the definition of an invoice is a detailed billing, i.e., one that itemizes charges by case, services provided, dates, hours of services provided, etc. DLEG informed us that the Bureau of Commercial Services has requested detailed billings similar to what is required of the Special Assistant Attorneys General by the Department of Attorney General but has not received them in the desired format.

# GLOSSARY

## Glossary of Acronyms and Terms

control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
DLEG	Department of Labor and Economic Growth.
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 presented fairly in all material respects in conformity with the disclosed basis of accounting.
GAAP	accounting principles generally accepted in the United States of America.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to 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 misstatement	A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.

material weakness in internal control over financial reporting

A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected.

significant deficiency in internal control over financial reporting

A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected.

*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.









