

EXECUTIVE DIGEST

HOMEOWNER CONSTRUCTION LIEN RECOVERY FUND

INTRODUCTION

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

AUDIT PURPOSE

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

BACKGROUND

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

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

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

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

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

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

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

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

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

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

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

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

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

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

**AUDIT SCOPE AND
METHODOLOGY**

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

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

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

PRIOR AUDIT
FOLLOW-UP

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