

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, 1994 through September 30, 1997.

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 permit the Auditor General to express an opinion on 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 within 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, unless the Legislature adopts a resolution to prohibit an additional assessment.

For fiscal year 1996-97, HCLRF reported expenditures and operating transfers out of \$747,960 and revenues and other financing sources of \$424,045. As of September 30, 1997, 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 the adequacy of HCLRF's internal control structure*.

Conclusion: Our assessment of the internal control structure disclosed one material weakness* that resulted in a material misstatement* to the financial statements:

- HCLRF operating transfers to the General Fund for fund expenditures exceeded HCLRF expenditures in fiscal year 1994-95 (Finding 4).

We did not report the underlying material weakness that resulted in the financial statement errors in an audit finding under the internal control structure objective because the Department corrected the material weakness during the audit period.

Audit Objective: To assess HCLRF's compliance with applicable laws and regulations that could have a material effect on its financial statements.

Conclusion: Our assessment of compliance with laws and regulations disclosed one instance of noncompliance that resulted in a material misstatement to the financial statements:

- The Department did not maintain HCLRF as a self-supporting fund as required by Sections 570.1201(1) and 570.1201(2) of the *Michigan Compiled Laws*. As a result, the Department understated administrative expenditures and overstated HCLRF fund balance by \$206,555 for the fiscal year ended September 30, 1997. (Finding 1)

The Department agreed with our corresponding recommendations and informed us that it will maintain

HCLRF as a self-supporting fund and that a correcting entry will be made.

Our assessment also identified two reportable conditions related to the limit on administrative expenditures and the reassessment of fund members (Findings 2 and 3).

Audit Objective: To audit HCLRF's financial statements as of and for the fiscal years ended September 30, 1997, September 30, 1996, and September 30, 1995.

Conclusion: We expressed a qualified opinion on HCLRF's financial statements as of and for the fiscal years ended September 30, 1997, September 30, 1996, and September 30, 1995 because the Department did not report all administrative expenditures in HCLRF in fiscal year 1996-97 (Finding 1), the Department did not properly classify a transfer of fee assessment revenue of \$59,048 from the General Fund to HCLRF in fiscal year 1995-96, and operating transfers from HCLRF to the General Fund exceeded HCLRF's expenditures by \$55,083 in fiscal year 1994-95 (Finding 4). The effects of these and other errors identified during our audit of the financial statements are identified on page 22. The results of our audit of the financial statements are further discussed in our independent auditor's report on the 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, 1994 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards

and *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. Also, we analyzed HCLRF's lien claim data base and reviewed lien claim files to assess the effectiveness of HCLRF's operations.

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

Our audit report includes 4 findings and 5 corresponding recommendations. The Department agreed with 4 of the recommendations and disagreed with the other recommendation.

The Department of Consumer and Industry Services complied with 7 of the 9 prior audit recommendations included within the scope of our current audit. The other 2 recommendations were rewritten for inclusion in this report.