

PERFORMANCE AUDIT
OF THE
BUREAU OF REGULATORY SERVICES

DEPARTMENT OF STATE

October 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 Audit

Bureau of Regulatory Services

Department of State

Report Number:
23-220-01

Released:
October 2003

The mission of the Bureau of Regulatory Services (BRS) is to continuously improve the quality of vehicle repair services and practices, vehicle sales practices, vehicle maintenance for safety, and consumer protection and to fulfill mandates of law. BRS accomplishes its mission through the identification and licensing of vehicle dealers, repair facilities, mechanics, and salvage vehicle agents; the education of licensees and others; and the investigation of consumer complaints.

Audit Objective:

To determine the effectiveness and efficiency of BRS's licensing and regulation of vehicle dealers, repair facilities (including body shops), and mechanics.

Audit Conclusion:

We concluded that BRS was generally effective and efficient in its licensing and regulation of vehicle dealers, repair facilities (including body shops), and mechanics.

Noteworthy Accomplishments:

In an effort to help identify areas with the potential for improvements and efficiencies, the Department of State contracted for a review of BRS, in conjunction with the Bureau of Legal Services, and its processes and procedures. The final report contained a number of recommendations intended to help BRS minimize problems in its current environment as well as provide a superior level of customer service by reengineering BRS's business processes, information technologies, and organizations. The

implementation of the recommendations resulted in two major changes. First, in January 1999, BRS reorganized and realigned staff so that all major business processes had an "owner" to allow for clear responsibility delineation and the associated authority to act promptly when necessary. Second, BRS implemented a new software package for the processing of initial license applications and renewals, including an automated case management tracking system.

Reportable Conditions:

BRS could make improvements regarding a continuous quality improvement process, vehicle dealer licensing fees, repair facility registration fees, dealer plate guidance and use, and certified mechanics at repair facilities (Findings 1 through 5).

Agency Response:

The agency preliminary responses indicated that BRS has taken steps to comply or will comply with all of the recommendations.

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Audit Objective:

To determine the effectiveness and efficiency of BRS's complaint investigation and resolution processes for vehicle dealers, repair facilities (including body shops), and mechanics.

Audit Conclusion:

We concluded that BRS was generally effective and efficient in its complaint investigation and resolution processes for vehicle dealers, repair facilities (including body shops), and mechanics.

To reach our conclusion, we reviewed BRS's procedures for obtaining, processing, and reviewing customer complaints against vehicle dealers, repair

facilities (including body shops), and mechanics. Also, we accompanied a BRS investigator on the field investigation of a complaint to gain an understanding of BRS's complaint resolution process. We reviewed randomly sampled complaint case files and reviewed case file documentation for propriety, completeness, and timeliness. We verified that, for cases referred for further review and investigation, the analysts pursued appropriate disciplinary action in accordance with BRS's Disciplinary Action Model.

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

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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: www.state.mi.us/audgen/



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

October 6, 2003

The Honorable Terri Lynn Land
Secretary of State
Treasury Building
Lansing, Michigan

Dear Secretary Land:

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

This report contains our report summary; 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 release of the audit report.

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

AUDITOR GENERAL

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Description of Agency

The mission* of the Bureau of Regulatory Services (BRS), Department of State, is to continuously improve the quality of vehicle repair services and practices, vehicle sales practices, vehicle maintenance for safety, and consumer protection and to fulfill mandates of law. BRS accomplishes its mission through the identification and licensing of vehicle dealers, repair facilities, mechanics, and salvage vehicle agents*; the education of licensed businesses and individuals as well as vehicle sales and service consumers; and the investigation of consumer complaints.

BRS is responsible for the licensing and regulation of approximately 39,000 automotive mechanics, 11,000 motor vehicle repair facilities (which includes approximately 3,000 body shops), 7,000 vehicle dealers, and 750 salvage vehicle agents. BRS is also responsible for monitoring compliance with Sections 257.56c, 257.201 - 257.259, 257.803, and 257.807 of the *Michigan Compiled Laws* (Act 300, P.A. 1949, as amended) that govern vehicle dealers and Sections 257.1301 - 257.1340 of the *Michigan Compiled Laws* (Act 300, P.A. 1974) that govern motor vehicle service and repair. BRS's primary performance goals* and objectives* focus on the timely processing of license applications and complaint investigation and resolution.

BRS is composed of three divisions: the Business Licensing, Complaint Resolution and Investigation, and Program Policy and Support Divisions.

- a. The Business Licensing Division is responsible for licensing vehicle dealers, repair facilities, and mechanics. The Division is also responsible for the development and provision of tests to evaluate the qualifications of mechanics prior to licensing.
- b. The Complaint Resolution and Investigation Division is responsible for the investigation of consumer complaints on alleged vehicle dealer, repair facility, and mechanic violations. The Division is also responsible for the provision of mediation services to resolve consumer complaints.
- c. The Program Policy and Support Division provides a variety of administrative and support services for BRS, including budgeting and the development of policies and procedures. The Division is also responsible for conducting routine dealer and

* See glossary at end of report for definition.

body shop inspections as required by statute and for the administrative sanctioning of violators.

BRS expended \$6.2 million during fiscal year 2001-02 and, as of September 30, 2002, had 77 full-time equated employees.

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

Audit Objectives

Our performance audit* of the Bureau of Regulatory Services (BRS), Department of State, had the following objectives:

1. To determine the effectiveness* and efficiency* of BRS's licensing and regulation of vehicle dealers, repair facilities (including body shops), and mechanics.
2. To determine the effectiveness and efficiency of BRS's complaint investigation and resolution processes for vehicle dealers, repair facilities (including body shops), and mechanics.

Audit Scope

Our audit scope was to examine the program and other records of the Bureau of Regulatory 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.

Audit Methodology

Our audit procedures, performed during the period March through August 2001, included an examination of BRS records primarily for the period October 1, 1998 through July 27, 2001.

During our audit, the Department performed a reorganization. The Department combined functions from the Bureau of Automotive Regulation and the Bureau of Driver Safety to create a new Bureau of Regulatory Services.

To accomplish our objectives, we reviewed applicable laws, State statutes and administrative rules, and Department policies and procedures to gain an understanding of program requirements applicable to pertinent BRS functions. Also, we interviewed BRS staff and documented various key processes and associated controls, including

* See glossary at end of report for definition.

the identification of performance objectives and measurement criteria used to evaluate BRS's effectiveness and efficiency.

To accomplish our first objective, we examined a random sample of initial license applications and license renewal applications for vehicle dealers, repair facilities (including body shops), and mechanics for compliance with established controls, completeness and accuracy, and timeliness. We reviewed mechanic license testing procedures and examined a random sample of graded mechanic license examinations to determine if BRS scored examinations accurately and properly issued mechanic licenses to qualified individuals. We surveyed selected repair facilities to obtain information on the effectiveness of BRS's mechanic testing and the competency of licensed mechanics. We reviewed a random sample of routine vehicle dealer and body shop inspection documentation for propriety, completeness, and timeliness. We accompanied BRS staff on routine vehicle dealer and body shop inspections to gain an understanding of the inspection process. During these inspections, we inquired of the vehicle dealers as to the use of and controls over dealer plates issued by BRS. Also, we reviewed BRS's controls over the safeguarding of certain assets, including cash and dealer plates. We also reviewed the various fees that BRS charges for its licensing activities, including a comparison of fees charged in other states for similar activities, as well as other professional fees charged within the State. We further reviewed BRS's process to verify the accuracy of license fees paid by repair facilities.

To accomplish our second objective, we reviewed BRS's procedures for obtaining, processing, and reviewing customer complaints against vehicle dealers, repair facilities (including body shops), and mechanics. Also, we accompanied a BRS investigator on the field investigation of a complaint to gain an understanding of BRS's complaint resolution process. We reviewed randomly sampled complaint case files and case file documentation for propriety, completeness, and timeliness. We verified that, for cases referred for further review and investigation, the analysts pursued appropriate disciplinary action in accordance with BRS's Disciplinary Action Model.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 5 findings and 7 corresponding recommendations. The agency preliminary responses indicated that BRS agreed with all 7 recommendations and has taken steps to comply or will comply with all of the recommendations.

The agency preliminary response that 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.

BRS complied with 2 of the 4 prior audit recommendations included within the scope of our current audit. One of the prior audit recommendations was repeated and the other was rewritten for inclusion in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS AND EFFICIENCY OF LICENSING AND REGULATION

COMMENT

Audit Objective: To determine the effectiveness and efficiency of the Bureau of Regulatory Services' (BRS's) licensing and regulation of vehicle dealers, repair facilities (including body shops), and mechanics.

Conclusion: We concluded that BRS was generally effective and efficient in its licensing and regulation of vehicle dealers, repair facilities (including body shops), and mechanics. However, our assessment disclosed reportable conditions* regarding a continuous quality improvement* (CQI) process, vehicle dealer licensing fees, repair facility registration fees, dealer plate guidance and use, and certified mechanics at repair facilities.

Noteworthy Accomplishments: Since our prior audit in 1995, BRS has lost as many as 12 full-time equated staff as a result of early retirements. In an effort to help identify areas with the potential for improvements and efficiencies, the Department of State contracted for a review of BRS, in conjunction with the Bureau of Legal Services, and its processes and procedures. The final report, dated November 17, 1998, contained a number of recommendations intended to help BRS minimize problems in its current environment as well as provide a superior level of customer service. The report included recommendations to automate manual tasks as well as eliminate duplicate data entry and nonvalue-added activities. This reengineering of BRS's business processes, information technologies, and organizations and the implementation of the recommendations resulted in two major changes. First, in January 1999, BRS reorganized and realigned staff so that all major business processes had an "owner" to allow for clear responsibility delineation and the associated authority to act promptly when necessary. Second, BRS implemented a new software package for the processing of initial license applications and renewals, including an automated case

* See glossary at end of report for definition.

management tracking system. BRS began the phase-in of this new software in August 2001.

FINDING

1. CQI Process

BRS had not developed a comprehensive CQI process to evaluate and improve the effectiveness and efficiency of its regulation of vehicle dealers, repair facilities, and mechanics operating in the State and to ensure that established standards are consistent with statutory requirements.

The State Legislature and the Governor have required, in various appropriations acts and in Executive Directive No. 1996-1, that State programs use quality improvement processes to manage the use of limited State resources. Also, in Executive Directive No. 2001-3, which rescinded Executive Directive No. 1996-1 effective June 8, 2001, the Governor stated that it was his goal to increase efforts toward continuous improvement and directed department and agency heads to actively support the State's Quality Recognition System and to ensure the implementation of quality and customer service management techniques. Further, BRS's Administrative Manual states that BRS's mission is to continuously improve the quality of vehicle repair services and practices, vehicle sales practices, vehicle maintenance for safety, and consumer protection and to fulfill mandates of law.

BRS can best evaluate the effectiveness and efficiency of its regulatory functions by establishing a CQI process. Such a process should include: performance indicators* for measuring outputs* and outcomes*; performance standards* or goals that describe the desired level of outcomes based on management expectations, peer group performance, and/or historical data; a management information system to gather actual output and outcome data; a comparison of the actual data with desired outputs and outcomes; a reporting of the comparison results to management; and proposals of program changes to improve effectiveness and efficiency.

BRS has established some informal components of a CQI process, including some performance indicators and standards and a reporting of results to management. Most of these performance indicators and standards focus on the length of time it takes to process applications for various licensing and related activities and to

* See glossary at end of report for definition.

investigate consumer complaints. However, the indicators and standards are not documented and BRS did not always utilize this information to evaluate the effectiveness and efficiency of its regulatory functions.

Specifically, our review disclosed:

- a. BRS frequently did not meet internally developed performance standards related to the processing of various applications for licensure and the investigation of consumer complaints. BRS attributed the delays to an increased work load as a result of an increase in dealers with a reduction of BRS staff over the last five years.

An analysis of business practices may lead to alternative time lines, processes, or priorities or modified performance standards in order to ensure that BRS is effectively and efficiently fulfilling its regulatory responsibilities. For example, BRS should consider the potential benefits of multiyear licensing of dealers and mechanics. Licensing mechanics for two years in year 1 and licensing dealers for two years in year 2 may reduce the administrative burden on BRS staff and allow for increased effectiveness and efficiency.

- b. BRS did not formally document its performance standards and goals and incorporate them into its policies and procedures. The documentation of established performance standards and goals helps to keep staff informed of priorities and increases accountability toward meeting the standards and goals. BRS stated that it intended to incorporate performance standards and goals into a planned revision of staff position descriptions.
- c. One of BRS's established performance standards may not be consistent with requirements mandated by statute. Section 257.248(1) of the *Michigan Compiled Laws* requires BRS to conduct an investigation of a new dealer license applicant's qualifications within 15 days after receiving the application. However, an internal performance standard requires BRS to process all new dealer license applications within 30 days after receiving the application. It is unclear if these two requirements relate to the same investigation/process or two distinct reviews. BRS's interpretation of the statutory requirement is to initiate a review of dealer qualifications within 15 days after receiving the application. Our review of 15 dealer license applications noted 7 (47%)

instances in which the review was not initiated within 15 days and 10 (67%) instances in which the 30-day processing requirement was exceeded.

The use of a comprehensive CQI process would enhance BRS's ability to evaluate the effectiveness and efficiency of its regulation of vehicle dealers, repair facilities, and mechanics as well as to protect and serve consumers.

RECOMMENDATION

We recommend that BRS develop a comprehensive CQI process to evaluate and improve the effectiveness and efficiency of its regulation of vehicle dealers, repair facilities, and mechanics operating in the State and to ensure that established standards are consistent with statutory requirements.

AGENCY PRELIMINARY RESPONSE

BRS agreed with the recommendation and will comply. BRS informed us that it is in compliance, to the extent possible, with the requirements of Executive Directive No. 2001-3 by actively supporting the State's Quality Recognition Program and ensuring the implementation of quality and customer service management techniques. BRS stated that it has already established a process for evaluating the effectiveness and efficiency of its regulatory functions that includes most of the components of a CQI process.

BRS stated there is no statutory or other promulgated set of standards that it is required to meet. Therefore, BRS has established its own goals for improving effectiveness and efficiency and is constantly measuring itself against these standards. As suggested in the report, BRS analyzes processing delays and evaluates possible alternative time lines, processes, practices, and standards in order to become more effective and efficient. The principal reason for migrating all of BRS's information technology applications from the mainframe to a new client server was to make such alternatives possible to implement. Once implemented in early 2004, the software configuration will include a complete set of standards for the timely completion of work. The software will also prompt and permit comprehensive documentation and reporting of how the standards were or were not met. These tools will enable management to complete its adoption of a comprehensive CQI process.

FINDING

2. Vehicle Dealer Licensing Fees

BRS has not developed a vehicle dealer license fee and dealer plate fee structure that allows BRS to recover the costs incurred in the licensing and regulation of vehicle dealers.

Section 257.248(3) of the *Michigan Compiled Laws* requires all new and used vehicle dealers to purchase a minimum of two dealer plates for use in the normal course of business. During our audit period, Section 257.803 of the *Michigan Compiled Laws* established the fee for the first three dealer plates at \$15, with additional plates available for \$8 each. Act 490, P.A. 2002, effective October 1, 2002, amended Section 257.803 of the *Michigan Compiled Laws* and established the fee for all dealer plates at \$10 each. This fee change had little impact on the amount of revenue collected from the purchase of dealer plates.

Although BRS is not required to be self-supporting, BRS's dealer licensing and regulatory functions are funded solely from dealer license fees and plate revenue and repair facility and mechanic license revenue. Revenue from dealer license fees and plates was not sufficient to cover BRS's dealer-related licensing and regulatory costs. In fiscal year 2001-02, dealer-related revenue totaled approximately \$1.6 million compared with dealer-related expenditures that totaled approximately \$2.9 million. In contrast, fiscal year 2001-02 license fee revenue from repair facilities and mechanics totaled approximately \$4.3 million compared with repair facility and mechanic-related expenditures that totaled \$3.4 million. In effect, the repair facility and mechanic license fees are subsidizing a portion of dealer-related expenditures.

The decision to increase dealer license fees rests ultimately with the Legislature and the Governor. However, BRS has access to the necessary revenue and expenditure information to develop an objective analysis and recommend a fee structure that is more equitable to the costs incurred in the licensing and regulation of vehicle dealers.

RECOMMENDATION

We recommend that BRS develop a vehicle dealer license fee and dealer plate fee structure that allows BRS to recover all costs incurred in the licensing and regulation of vehicle dealers.

AGENCY PRELIMINARY RESPONSE

BRS agreed with the recommendation and has taken steps to comply. BRS believes that the Legislature has the ultimate authority to fund programs and increase fees as it deems appropriate. BRS informed us that it recently worked with the Legislature to review dealer licensing fees that resulted in the passage of Act 152, P.A. 2003. The Act includes significant increases in those fees effective October 1, 2003.

FINDING

3. Repair Facility Registration Fees

BRS did not obtain sufficient information to verify gross annual revenue* amounts reported by repair facilities, which are used to determine repair facility annual registration fees. BRS also did not revise the administrative rules to reflect statutory changes related to the repair facility registration fee process.

Section 257.1330 (1) of the *Michigan Compiled Laws* establishes a sliding scale for repair facility registration fees, computed based on the repair facility's adjusted gross annual revenue, with annual fees ranging from \$25 to \$500. The sliding scale includes 20 different fee categories, increasing in \$25 increments, based on increases in gross annual revenue, primarily in \$20,000 increments. Any repair facility with gross annual revenue in excess of \$340,000 pays the maximum \$500 annual registration fee. Approximately 32% of repair facilities pay the maximum annual registration fee.

In our audit, we noted:

- a. BRS did not require new repair facilities to submit supporting documentation for their estimates of gross annual revenue amounts used to compute initial registration fees. As a result, BRS was unable to determine if the fees submitted by the repair facilities were correct.

Michigan Administrative Code R 257.124 requires new repair facilities to calculate their initial registration fees based on estimates of their reasonably anticipated gross annual revenue for the first full federal income tax year of

* See glossary at end of report for definition.

operation. BRS provides a 15-step work sheet to the applicants to assist in estimating the repair facilities' gross annual revenue. However, the instructions for this work sheet stipulate that it not be included in the application submitted to BRS. As a result, the only information BRS has available to evaluate the reasonableness of the repair facilities' gross annual revenue estimates is a categorical description of the repair facilities (dealer, service station, body shop, etc.) and the number of mechanics employed by the repair facilities.

BRS informed us that the reasonableness of a new repair facility's gross annual revenue estimate is generally not questioned during the application review process. Requiring applicants to include their estimate work sheets as part of their applications would provide BRS with useful information to assess the reasonableness of the repair facilities' gross annual revenue estimates.

- b. BRS did not require repair facilities to report the revenue deducted from the repair facilities' gross annual revenue to determine the facilities' annual renewal fee.

Michigan Administrative Code R 257.124 states that the repair facility registration fee is based on gross annual revenue obtained by the repair facility in conjunction with repairs. BRS's instructions for determining the amount of gross annual revenue for the purposes of determining the amount of the annual repair facility renewal fee provide for the exclusion of revenue from:

- (1) Parts sold over the counter but not installed by a repair facility.
- (2) Motor fuel and lubricants sold at a service station pump.
- (3) Repairs to vehicles not required to be registered and titled under Michigan law (such as farm tractors and off-road construction vehicles).

However, BRS did not require the repair facilities to report the amounts deducted for these exclusions. Consequently, BRS was unable to determine if repair facilities were submitting the proper annual registration fees. BRS has developed criteria intended to identify repair facilities that may have misreported gross annual revenue amounts. The BRS follow-up process

could lead to an on-site review by BRS of a repair facility's reported gross annual revenue. However, we noted that this process was not consistently applied to all repair facilities and that required actions were not always taken. In many instances, repair facilities were asked to provide BRS with copies of their tax returns to validate the gross annual revenue amounts reported, but because of the allowable exclusions to gross revenue, the use of the tax returns was not effective in providing adequate verification.

- c. BRS did not revise the administrative rules to reflect statutory changes related to the repair facility registration fee process.

Section 257.1330(1) of the *Michigan Compiled Laws* provides the current repair facility registration fee scale. However, Section 257.1330(3) of the *Michigan Compiled Laws* further states that the registration fee for repair facility renewals shall be set by administrative rule. *Michigan Administrative Code R 257.125(2)*, however, was never revised to reflect the change in the fee scale effective October 1, 1989.

RECOMMENDATIONS

We recommend that BRS obtain sufficient information to verify gross annual revenue amounts reported by repair facilities, which are used to determine repair facility annual registration fees.

We also recommend that BRS revise the administrative rules to reflect statutory changes related to the repair facility registration fee process.

AGENCY PRELIMINARY RESPONSE

BRS agreed with the recommendations and will comply. BRS believes that its current process complies with the law and adequately verifies repair facility registration fees. Nevertheless, BRS will review its procedures and will consider amending *Michigan Administrative Code R 257.122* to authorize other methods of verifying gross revenues.

FINDING

4. Dealer Plate Guidance and Use

BRS did not provide vehicle dealers with consistent guidance on the acceptable uses of dealer plates. Also, BRS did not require vehicle dealers to establish procedures for the appropriate control and use of dealer license plates.

Our review disclosed:

- a. BRS provided inconsistent guidance to dealers and law enforcement regarding the appropriate use of dealer plates.

Section 257.244(3) of the *Michigan Compiled Laws* states that a dealer may operate a dealer-owned vehicle on a street or highway without registering the vehicle with the Secretary of State if the vehicle displays a special plate, called a dealer plate. This section defines a dealer to include any employee, servant, or agent of the dealer. Section 257.244(5) of the *Michigan Compiled Laws* states that dealer plates should not be used on service cars or wreckers operated as an adjunct of a dealer's business. As of October 31, 2001, BRS had issued over 66,000 dealer plates to more than 5,900 new and used vehicle dealers in the State.

In a dealer bulletin dated May 5, 1997, BRS redefined a dealer as referenced in Section 257.244(3) to include "employees, servants or agents, or family members" [emphasis added] and also allowed for any use except as a service vehicle. BRS's reference to family members appears to exceed the legal definition as well as Department policy. Section 1-14 (dealer plate use) of the Department of State Dealer Manual makes no reference to family members.

BRS informed us that dealers had interpreted "agents" to include family members so issuing the dealer bulletin was only clarifying current practice.

- b. BRS did not require dealer plate accountability or assess dealer plate usage in its routine four-year inspections of new and used vehicle dealers.

During our audit, we accompanied BRS inspectors on their routine four-year inspections of new and used vehicle dealers. During these inspections, we noted:

- (1) Many of the dealers did not maintain a log of whom the dealer plates had been assigned to. We determined that 22 (76%) of the 29 dealers could not locate or account for all of their dealer plates.
- (2) Dealer employees at two dealers were using expired dealer plates.
- (3) Dealers had provided vehicles with dealer plates to customers for use as loaner cars while their vehicles were being repaired.
- (4) A dealer assigned a vehicle and dealer plate to an unlicensed individual (not the result of violations or legal action).
- (5) A dealer assigned a vehicle and dealer plate to an individual whose driver license had expired.
- (6) A dealer provided a vehicle and dealer plate to the prior owner of a dealership as a condition of the sale of the dealership.

In addition, after our dealer inspections, we examined driving records of dealer employees assigned dealer plates for their personal and business-related use. We noted one person whose driver license had been revoked as the result of a second substance abuse conviction in seven years, specifically for operating a vehicle under the influence of alcohol. Although we determined that the person was operating a personal vehicle at the time of the incident with no dealer plate involved, this person should not have had access to a dealer plate until that person's driver license had been reinstated.

The establishment of procedures for the control and use of dealer plates would help minimize the misuse of dealer plates.

RECOMMENDATIONS

We recommend that BRS provide vehicle dealers with consistent guidance on the acceptable uses of dealer plates.

We also recommend that BRS work with the vehicle dealers to establish procedures for the appropriate control and use of dealer plates.

AGENCY PRELIMINARY RESPONSE

BRS agreed with the recommendations and will comply. The Department of State Dealer Manual was revised in June 2002 and is consistent with previous manuals and with Section 257.244(3) of the *Michigan Compiled Laws*.

As with all other plates, law enforcement is responsible for ensuring that dealer plates are used properly on vehicles operated on the highway. If law enforcement confiscates improperly or illegally used plates, BRS reviews and, if appropriate, reduces the number of plates assigned to a dealership. Nevertheless, BRS will develop recommended procedures to assist dealers in monitoring the use of dealer plates.

FINDING

5. Certified Mechanics at Repair Facilities

BRS did not ensure that licensed repair facilities employed certified mechanics in each category of repair services as required by statute.

Section 257.1305(1) of the *Michigan Compiled Laws* states that all motor vehicle repair facilities must have at least 1 specialty or master mechanic in its employ certified in each category of repair that it provides. We reviewed 13 approved repair facility applications and noted 5 (38%) applications for repair facilities that did not employ at least 1 specialty or master mechanic certified in each category of repair that they intended to provide. One of the 5 applications indicated that the repair facility had not hired any mechanics as of the application date. Another application stated that the mechanic employed had applied for certification. There was no evidence that BRS verified that certified mechanics had been employed after approving the applications. The other 3 applications identified mechanics, but all categories of repairs provided by the repair facilities were not represented by the mechanics listed and one included a mechanic who had not been licensed in over five years.

Applications require repair facilities to list all mechanics and their license numbers when applying for licensure. Applications also require repair facilities to indicate the categories of repair that they will provide to consumers. BRS staff attempt to verify that the mechanics listed on repair facility applications (if identified) are currently certified, but staff do not verify that mechanics are certified in all repair categories that they provide services in. BRS staff informed us that they rely on the inspection and complaint investigation processes to identify and pursue remedies in these circumstances.

However, when BRS investigates complaints relating to repair facilities, the investigations focus specifically on the issues surrounding the complaints and the mechanics involved in providing the specific services. There is no requirement that investigators review the certifications of all mechanics in the repair facilities or whether the facilities employ mechanics certified in each repair category.

Enforcement of the certified mechanic requirements will help ensure that consumers receive services from qualified mechanics at licensed repair facilities.

RECOMMENDATION

We recommend that BRS ensure that licensed repair facilities employ certified mechanics in each category of repair services as required by statute.

AGENCY PRELIMINARY RESPONSE

BRS agreed with the recommendation and will comply. BRS believes that it already does an effective job of ensuring that facilities employ properly certified mechanics in the performance of major repairs. When a repair facility registration application is submitted, the applicant must identify the major repair categories that the facility intends to offer. The facility may never offer repairs in an identified category or the facility may choose to offer repairs in a different category. The facility is not precluded from receiving a registration if it does not have a mechanic certified in each identified category.

Repair facility applicants are required to certify in writing that they will employ certified mechanics in each category of repair that they actually offer. BRS stated that it also verifies that any mechanics named on the applications are currently certified. If no mechanics are listed, BRS advises applicants in writing that they are limited to performing only minor repairs.

However, the new client server application presents opportunities to develop and test procedures that could be used to determine mechanic certification status.

EFFECTIVENESS AND EFFICIENCY OF COMPLAINT INVESTIGATION AND RESOLUTION PROCESSES

Audit Objective: To determine the effectiveness and efficiency of BRS's complaint investigation and resolution processes for vehicle dealers, repair facilities (including body shops), and mechanics.

Conclusion: We concluded that BRS was generally effective and efficient in its complaint investigation and resolution processes for vehicle dealers, repair facilities (including body shops), and mechanics.

To reach our conclusion, we reviewed BRS's procedures for obtaining, processing, and reviewing customer complaints against vehicle dealers, repair facilities (including body shops), and mechanics. Also, we accompanied a BRS investigator on the field investigation of a complaint to gain an understanding of BRS's complaint resolution process. We reviewed randomly sampled complaint case files and case file documentation for propriety, completeness, and timeliness. We verified that, for cases referred for further review and investigation, the analysts pursued appropriate disciplinary action in accordance with BRS's Disciplinary Action Model.

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

Glossary of Acronyms and Terms

BRS	Bureau of Regulatory Services.
continuous quality improvement (CQI)	A process that aligns the vision and mission of an organization with the needs and expectations of internal and external customers. It normally includes a process to improve program effectiveness and efficiency by assessing performance indicators that measure outputs and outcomes related to the program vision, mission, goals, and objectives.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
gross annual revenue	The total money received by a motor vehicle repair facility for labor and parts sold in conjunction with motor vehicle repairs covered by the Motor Vehicle Service and Repair Act (Act 300, P.A. 1974), before expenses of any kind are subtracted.
mission	The agency's main purpose or the reason that the agency was established.
objectives	Specific outcomes that a program seeks to achieve its goals.
outcomes	The actual impacts of the program.
outputs	The products or services produced by the program.

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.
performance indicators	Information of a quantitative or qualitative nature used to assess achievement of goals and/or objectives.
performance standard	A desired level of output or outcome.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
salvage vehicle agent	A person authorized by the Department of State to buy, sell, acquire, or otherwise deal in distressed, late model vehicles, scrap vehicles, or salvageable parts through auctions or salvage pools on behalf of a licensed used vehicle parts dealer, automotive recycler, or foreign salvage vehicle dealer. An agent may work for only one dealer at a time, and a dealer may have no more than two salvage vehicle agents, including himself or herself.