



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

*Motor Fuel Quality and Quantity Inspections
and Enforcement Efforts*

Laboratory Division

Department of Agriculture

Report Number:
791-0111-06

Released:
December 2007

The mission of the Consumer Protection Section, Laboratory Division, is to prevent economic fraud and deception concerning weights and measures, motor fuel quality, and labeling and advertising of all commodities; to be responsible for environmental issues as they relate to the distribution of gasoline products; to provide National Institute of Standards and Technology traceability on the State's standards and measures; and to provide regulatory resource expertise to the public, industry, and government.

Audit Objective:

To assess the effectiveness of the Division's efforts to promote compliance with the motor fuel quality and quantity laws.

Audit Conclusion:

We concluded that the Division's efforts were moderately effective in promoting compliance with the motor fuel quality and quantity laws. We noted one material condition (Finding 1) and three reportable conditions (Findings 2 through 4).

Material Condition:

The Division did not maintain documentation supporting the calculation of assessed fines and the decisions for waiving or reducing fines (Finding 1).

Reportable Conditions:

The Division should consistently and fully use its authority when applying enforcement actions in response to violations (Finding 2).

The Division should develop standards for frequency of inspections and develop formal guidelines to prioritize inspections of retail gas stations and distributors (Finding 3).

The Division's data management systems used to track and monitor inspection results did not contain complete and accurate information (Finding 4).

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Agency Response:

Our audit report contains 4 findings and 4 corresponding recommendations. The Department of Agriculture's preliminary response indicates that it agrees with 3 recommendations and disagrees with 1 recommendation.

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December 7, 2007

Mr. James E. Byrum, Chair
Commission of Agriculture
and
Mr. Don Koivisto, Director
Department of Agriculture
Constitution Hall
Lansing, Michigan

Dear Mr. Byrum and Mr. Koivisto:

This is our report on the performance audit of the Motor Fuel Quality and Quantity Inspections and Enforcement Efforts, Laboratory Division, Department of Agriculture.

This report contains our report summary; description; audit objective, scope, and methodology and agency responses and prior audit follow-up; comment, findings, recommendations, and agency preliminary responses; three exhibits, presented as supplemental information; and a glossary of terms.

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 this audit.

AUDITOR GENERAL

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Description

The Department of Agriculture was created by Act 13, P.A. 1921 (Sections 285.1 - 285.7 of the *Michigan Compiled Laws*). The mission* of the Consumer Protection Section, Laboratory Division, is to prevent economic fraud and deception concerning weights and measures, motor fuel quality, and labeling and advertising of all commodities; to be responsible for environmental issues as they relate to the distribution of gasoline products; to provide National Institute of Standards and Technology traceability on the State's standards and measures; and to provide regulatory resource expertise to the public, industry, and government.

The Motor Fuel Quality Program and Weights and Measures Program within the Consumer Protection Section are responsible for ensuring that all gasoline sold annually in Michigan (approximately 5.0 billion gallons) meets the quality and quantity standards stipulated in the Motor Fuels Quality Act (Act 44, P.A. 1984) and the Weights and Measures Act (Act 283, P.A. 1964), respectively. These Programs regulate the sale and quality of motor fuels through licensing, investigation, inspection, and sampling to ensure that the fuels purchased by consumers contain the proper materials, perform properly, and abide by legal standards. In addition, these Programs are responsible for maintaining the official Michigan standards for weights and measures (mass, volume, and length) and conducting tests and analyses to ensure that weight and measure standards used by Michigan businesses are directly traceable to national standards.

For the fiscal year ended September 30, 2006, the Legislature appropriated \$4.9 million for the Consumer Protection Section, Laboratory Division. As of May 31, 2006, the Motor Fuel Quality Program had 18 employees and the Weights and Measures Program had 14 employees.

* See glossary at end of report for definition.

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

Audit Objective

The objective of our performance audit* of the Motor Fuel Quality and Quantity Inspections and Enforcement Efforts, Laboratory Division, Department of Agriculture, was to assess the effectiveness* of the Division's efforts to promote compliance with the motor fuel quality and quantity laws.

Audit Scope

Our audit scope was to examine the program and other records of the Motor Fuel Quality Program and the Weights and Measures Program. 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. Our audit procedures, conducted during the period May through October 2006, included examination of the Programs' records and activities for the period October 1, 2003 through May 31, 2006.

Audit Methodology

We conducted a preliminary review of the Programs' motor fuel inspections and enforcement operations to formulate a basis for developing our audit objective and defining our audit scope. Our review included interviewing the Programs' personnel, reviewing the Programs' policies and procedures, reviewing applicable legislation, and analyzing available data.

To accomplish our objective, we reviewed the Programs' mission statements. We met with the Programs' staff and reviewed applicable policies and procedures of the Programs. We tested the Programs' records by selecting a sample of retail gas establishments licensed during our audit period and reviewed all inspection and enforcement documentation effective during our audit period. We performed additional testing and evaluation of the Programs' records associated with gasoline distributor* inspection and enforcement processes. We also tested the Programs' records by

* See glossary at end of report for definition.

comparing a sample of fines assessed during our audit period to the corresponding inspection documentation maintained during our audit period.

We use a risk and opportunity based approach when selecting activities or programs to be audited. Accordingly, our audit efforts are focused on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. By design, our limited audit resources are used to identify where and how improvements can be made. Consequently, our performance audit reports are prepared on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 4 findings and 4 corresponding recommendations. The Department of Agriculture's preliminary response indicates that it agrees with 3 recommendations and disagrees with 1 recommendation.

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 the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require the Department of Agriculture to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Animal Industry Division, Food and Dairy Division, and Laboratory Division, Department of Agriculture (79-110-02), in December 2002. Within the scope of this audit, we followed up the one prior audit recommendation. The Laboratory Division had complied with the prior audit recommendation.

COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF EFFORTS TO PROMOTE COMPLIANCE WITH MOTOR FUEL QUALITY AND QUANTITY LAWS

COMMENT

Audit Objective: To assess the effectiveness of the Laboratory Division's efforts to promote compliance with the motor fuel quality and quantity laws.

Conclusion: We concluded that the Division's efforts were moderately effective in promoting compliance with the motor fuel quality and quantity laws. Our audit disclosed one material condition*. The Division did not maintain documentation supporting the calculation of assessed fines and the decisions for waiving or reducing fines (Finding 1).

Our audit also disclosed three reportable conditions* related to consistent and full use of authority for enforcement actions, standards for frequency of inspections and formal guidelines to prioritize inspections, and tracking and monitoring of inspections (Findings 2 through 4).

FINDING

1. Documentation Supporting Assessment of Fines

The Division did not maintain documentation supporting the calculation of assessed fines and the decisions for waiving or reducing fines. Without documentation, the Division cannot support that it assessed the proper fine amounts.

The Motor Fuels Quality Act and the Weights and Measures Act grant the Department of Agriculture the authority to assess fines based on a fine structure that progressively increases in amount depending on whether the violation is a first violation or a repeated violation. Both Acts also provide that the fine may include the actual cost of investigation and any economic benefit (i.e., profit gained while in violation). In the case of the Motor Fuels Quality Act, this economic benefit amount can be doubled.

During our audit period, the Division assessed 677 fines, of which 454 (67%) were issued to gas stations for operating without licenses and the remaining 223 (33%)

* See glossary at end of report for definition.

were issued for gas quality violations, pump meter violations, and other violations of the Motor Fuels Quality Act and Weights and Measures Act. The calculation of the fine amount and the determination of duration and severity of the violation are much less complex for licensing violations; therefore, we focused our review on the remaining 223 fines. Our review of inspection files related to 15 (7%) of the 223 fines assessed during our audit period disclosed:

- a. The Division did not always document that it calculated and included in the assessed fine the economic benefit derived by the gas station owner. For 7 (47%) of the 15 fines that we reviewed, the Division identified violations that should have resulted in a calculation of economic benefit as part of the fine. In 3 (43%) of the 7 instances, the Division did not document whether it included the calculation of economic benefit as part of the fine. In 4 (57%) of the 7 instances, the Division included references to economic benefit but did not maintain supporting documentation for the calculation of the assessed fines.
- b. The Division waived or reduced 8 (53%) of the original 15 fine amounts and did not maintain documentation supporting the decisions for the waivers or reductions. These waivers or reductions resulted in final fine assessments that were \$11,550 less than the original fine assessments, which was a decrease in fine amounts of 61%.

The impact of the Division's lack of documentation supporting the calculation of assessed fines and the decisions for waiving or reducing fines, as well as the inconsistency and lack of full use of its authority when applying enforcement actions in response to violations (see Finding 2), is unknown.

RECOMMENDATION

We recommend that the Division maintain documentation supporting the calculation of assessed fines and the decisions for waiving or reducing fines.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation. However, the Department informed us that it does not agree that this finding is a material weakness. The Department informed us that it documented its inspection and enforcement related decisions, including calculation of economic benefit, but did not maintain the documentation after respective appeal periods had lapsed. The Department

indicated that it has changed its policy to retain related documentation as required by statute and Department policy.

FINDING

2. Consistent and Full Use of Authority for Enforcement Actions

The Division should consistently and fully use its authority when applying enforcement actions in response to violations. Consistent and full use of the Division's authority when applying enforcement actions will encourage retail gas stations and distributors to comply with the motor fuel laws and regulations, will help protect consumers, and will help provide for fairness among those in the gasoline industry.

The Motor Fuels Quality Act and the Weights and Measures Act require retail gas stations and distributors to comply with numerous types of quality and quantity standards that address limits on the amount of water in an underground storage tank, accuracy of gas pump meters, purity of gas, delivery of fuel to an unlicensed station, and labeling on gas pumps. In addition, when the Division identifies violations, the Acts allow for assessment of administrative or civil fines ranging from \$50 to \$10,000, plus any economic benefit determined to be applicable by the Division. Both Acts provide for the fines to be administered progressively depending on whether the violation is a first violation with a stipulated dollar amount or a repeated violation with a larger dollar amount.

The Motor Fuels Quality Act also requires the Division to establish that retail gas stations or distributors knowingly committed some violations, such as gas found to be below the minimum standards for the octane offered and gas found to contain an inappropriate amount or type of additive. In these instances, the Division issues warning letters upon a first violation in order to establish that the gas station or distributor has knowledge of the violation and then assesses fines for recurring violations.

We reviewed the Division's inspection hard copy files and licensing files related to retail gas stations and the data files and fine information for retail gas stations and distributors:

a. Our review of the Division's gas station inspection, licensing, and other documentation disclosed the following violations in which the Division did not consistently and fully use its authority to apply enforcement actions:

- (1) The Division did not fine gas stations for inspections that resulted in violations noted for more than 2 inches of water in the underground storage tanks, failure to meet pump labeling requirements, or not providing required documentation to support gas receipt, transfer, delivery, storage, or sale. Of the 14 inspections that we reviewed that resulted in violations of these types, none of the 14 resulted in assessment of fines. For example, the inspector noted 4.5 inches of water in one station's regular underground storage tank where only 2 inches were allowed; however, the Division issued a warning letter and a stop sale order to the gas station but did not assess a fine. Because the Motor Fuels Quality Act does not require that the Division prove that gas stations knowingly committed these types of violations, these stations should have been fined.
- (2) The Division did not always assess fines for gas stations that operated without licenses. Of the 10 instances that we reviewed in which gas stations were not licensed, the Division did not fine 6 (60%) of the gas stations. Inspection documentation for one of these stations indicated that the station had never been licensed during its eight years of operation. The Division fined the distributor \$200 for delivering to an unlicensed station and collected the current year and subsequent year license fee from the station. The Division did not assess a fine to the station. In addition, the \$200 fine to the distributor was for the most recent delivery and it did not address any of the other deliveries that occurred over the eight years.
- (3) The Division did not assess fines for quantity inspections that identified missing or broken security seals. Of the 4 inspections that we reviewed that identified violations for missing or broken security seals, none of the

4 resulted in assessment of fines. Two (50%) of the 4 missing security seals were noted as a result of conducting inspections in response to receiving consumer complaints. Security seals are required on every gas pump and are used to protect the meter adjustment mechanism that regulates the quantity delivered. If a seal is missing or broken, it could be an indication that someone may have tampered with the meter adjustment mechanism. The Division requires inspectors to ensure that security seals are immediately affixed when found to be missing or broken. However, to discourage future recurrence of missing or broken security seals, the Division should assess fines when noting a missing or broken security seal.

- (4) The Division did not assess fines for 7 quantity violations and 2 repeat quality violations. Of the 7 quantity violations, 4 (57%) resulted from predominately negative pump meters or inaccurate pump meters and 3 (43%) resulted from leaking hoses. Although the Division condemned the pumps related to the quantity violations, it did not take further enforcement action to discourage future violations by these stations. In addition, the repeated quality violations are an indication that the Division was ineffective in discouraging continued violations. Because the law provides for assessment of a fine for quantity violations and the Division is not required to establish knowledge on the part of the gas station when there is a repeat quality violation, the Division should assess fines for these quantity and quality violations in order to discourage future violations.
- b. Our review of 15 fines disclosed that 3 (20%) were not assessed and collected in a timely manner. In all 3 instances, ownership changed at the gas stations before the Division was able to collect the fines. However, an average of 255 days elapsed from the time of the violation to the time of the ownership changes without the Division pursuing more aggressive enforcement actions. The Motor Fuels Quality Act provides that the director may suspend, deny, or revoke a license for failure to comply with either this Act or the Weights and Measures Act. If the Division assesses fines in a more timely manner and utilizes its authority to suspend, deny, or revoke licenses when stations do not pay fines in a timely manner, it may be able to collect the fines before ownership changes occur.

- c. Our review disclosed that the Division did not determine whether distributors should have been fined for delivering motor fuel to 408 (90%) of 454 unlicensed gas stations. The Motor Fuels Quality Act prohibited a distributor from delivering motor fuel to a gas station if it did not indicate a license number issued in accordance with the Act on the delivery documentation. Because the 408 stations were not licensed, the distributor could not have documented a current license number on the delivery documentation. A violation of this provision could result in a civil fine not to exceed \$10,000 for each day the violation continues.

RECOMMENDATION

We recommend that the Division consistently and fully use its authority when applying enforcement actions in response to violations.

AGENCY PRELIMINARY RESPONSE

The Department disagrees with the recommendation. The Department indicated that it also disagrees with the presentation of certain information in this finding. For the examples of inconsistent enforcement presented in this finding, the Division believes that it applied consistent, progressive enforcement practices in accordance with Department policy (e.g., warning letters, fines, or stop sale orders). Because of the requirements in statute and Department policy, including provisions for establishing knowledge of violations, the Division is required to determine the most appropriate enforcement action based on an assessment of all relevant factors identified during an inspection. The Department believes that the auditors' conclusion regarding inconsistency is due to a lack of supporting documentation available to the auditors, as referenced in Finding 1; a difference in interpretation regarding when establishing knowledge is required; and a lack of formal documentation outlining the Division's enforcement decision-making process. The Division informed us that it recently changed its document retention policy and has also developed a decision chart to formally document the enforcement decision-making process. The Department believes that its enforcement policy is appropriate and consistent with its statutory authority and results in a higher level of compliance. The Division informed us that it has evaluated information from other states and believes that the Department's use of fines is considerably higher than surrounding states.

OFFICE OF THE AUDITOR GENERAL EPILOGUE

The Division disagrees with the recommendation; however, the high exception rates noted throughout this finding indicate that more consistent and more aggressive enforcement should be used to best encourage future compliance.

The Division responded that it applied progressive enforcement practices in accordance with Department policy. Although the Commission of Agriculture policy encourages the use of progressive enforcement type penalties, including warning letters, civil penalties, and other enforcement actions, it does not specify a systematic progression for applying those enforcement actions. Furthermore, the Division did not have a formal procedure to implement the policy and did not document how it applied the policy in response to violations. We believe that the Division should have more fully used its authority when applying enforcement actions, including the assessment of fines and suspension of licenses as noted in the finding. These types of enforcement actions are allowed by both the Commission's policy and State statute.

The Division indicated that it disagrees with the presentation of certain information in the finding related to inconsistent enforcement. We believe that the finding provides evidence of inconsistent enforcement as noted in item a.(2) in which the Division fined 4 (40%) of the 10 unlicensed stations but did not fine 6 (60%) of the 10 unlicensed stations. Also, we noted in item c. that the Division fined distributors for delivering fuel to 46 (10%) of the 454 unlicensed stations but did not determine whether distributors should have been fined for delivering motor fuel to 408 (90%) of the 454 unlicensed stations.

The Division indicated that it believed that the auditors' conclusion regarding inconsistency was based on a lack of available supporting documentation, a difference in interpretation regarding when establishing knowledge is required, and a lack of formal documentation outlining the Division's enforcement decision-making process. Our conclusion was based on the evidence reported in the finding showing inconsistent application of enforcement action and opportunities for the Division to more fully use its authority to promote compliance with motor fuel quality and quantity laws. In addition, the Motor Fuels Quality Act requires the Division to establish that retail gas stations or distributors knowingly committed certain violations prior to applying enforcement actions. The provision of the law that requires establishment of knowledge of violations did not pertain to any of the items

cited in this finding; therefore, application of the knowledge provision did not influence our conclusions for Finding 2. Also, as Findings 1 and 3 indicate, we agree that formal documentation outlining the enforcement decision-making process, including formalized guidelines to prioritize inspections, would help the Division ensure that the appropriate level of enforcement is applied in response to violations.

The Department indicated that it has evaluated information from other states and believes that the Department's use of fines is considerably higher than surrounding states. As noted in Finding 3, inspection program requirements may vary from state to state; therefore, the Division's comparison of surrounding states' use of fines would not, alone, be sufficient information to conclude that the Division applied the most effective use of its authority in response to violations.

FINDING

3. Standards for Frequency of Inspections and Formal Guidelines to Prioritize Inspections

The Division should develop standards for frequency of inspections and develop formal guidelines to prioritize inspections of retail gas stations and distributors. The development of standards for frequency of inspections and formal guidelines to prioritize inspections could assist the Division in allocating resources or quantifying the need for additional resources to better promote compliance with motor fuel laws.

The Motor Fuels Quality Act and the Weights and Measures Act require the Department to establish standards to ensure compliance with and enforcement of the Acts. To ensure compliance with the Acts, the Division requires all gas stations operating in the State be licensed and conducts quality and quantity inspection activities of all gas stations and distributors.

Because the Division uses its inspection process as one of the primary means to promote compliance with the law, it is important that the inspections are scheduled by priority to help ensure best use of the Division's resources. Although the Division focuses much of its efforts on addressing complaints, formal guidelines for prioritizing inspections could include a planned cycle for routine inspections, reinspections, and vapor recovery inspections, as well as prioritization of all complaints received based on factors such as stations' and distributors' history of

inspection violations, frequency of inspections, estimated sales volume, and location.

We researched various standards for frequency of inspections and noted that it varied from state to state. Our research showed that other states' requirements for various types of inspections ranged from every 12 months to every 36 months. Although the inspection program requirements may vary from state to state, we believe that the Division should establish standards for frequency related to the types of inspections included in its program. As noted in items a. through c., the frequency of inspections during our audit period varied greatly, supporting the need for the Division to develop standards. We analyzed the Division's inspection records for licensed retail gas stations and distributors:

- a. Our review of the Division's inspections of distributors disclosed that the Division did not determine whether quality inspections should have been conducted for 631 (98%) of 647 distributors identified by the Division during our 32-month audit period. In addition, the Division could not ensure that it had identified all licensed motor fuel distributors. The Motor Fuels Quality Act does not require distributors to be registered with or licensed by the Department. Therefore, the Division informed us that it identifies distributors as a result of its inspections of gas stations and records the distributors in its database.
- b. Our review of the Division's records indicated that there were 1,600 (32%) of approximately 5,000 licensed gas stations that did not receive any comprehensive inspections during our 32-month audit period. We reviewed historical inspection data for 18 of these stations and noted that an average of 75 months and 93 months had elapsed since the most recent quality and quantity inspections, respectively. The Division informed us that 6 (33%) of the 18 had received undercover buy tests. Undercover buy tests, while limited in comparison to the more comprehensive inspections, can be used by the Division as a tool to identify the need for a more comprehensive inspection.
- c. We randomly selected 50 gas stations from a listing of stations inspected during our 32-month audit period. The gas stations selected received a total

of 69 quality and 73 quantity inspections during that period. Our review of the documentation for the 142 inspections disclosed:

- (1) The Division did not conduct any quality inspections for 11 (22%) of the 50 gas stations. We reviewed the inspection histories for these 11 stations and noted that an average of 69 months elapsed since the last quality inspections.
- (2) The Division did not conduct any quantity inspections for 16 (32%) of the 50 gas stations. We reviewed the inspection histories for these 16 stations and noted that an average of 85 months had elapsed since the last quantity inspections.
- (3) Of the 69 quality inspections, 28 (41%) were completed more than 36 months after the previous inspections, with an average of 74 months elapsing between the inspections.
- (4) Of the 73 quantity inspections, 25 (34%) were completed more than 36 months after the previous inspections, with an average of 77 months elapsing between the inspections.
- (5) Of the 50 gas stations, the Division inspected 25 stations for which annual vapor recovery testing* is required. However, none of the 25 stations received vapor recovery tests during our audit period. The Division informed us that it did not conduct any vapor recovery testing because funding was not provided.
- (6) For the 142 quality and quantity inspections conducted at the gas stations during our audit period, the Division noted a total of 35 violations that required reinspections. The Division's formal goals indicate that reinspections should be conducted within 30 days of noting the violation. However, for 5 (14%) of the violations, reinspections were completed an average of 199 days after the date of the violation and 3 (9%) had not been reinspected as of the time of our review, resulting in an average of 383 days elapsing from the date of the violation.

* See glossary at end of report for definition.

RECOMMENDATION

We recommend that the Division develop standards for the frequency of inspections and develop formal guidelines to prioritize inspections of retail gas stations and distributors.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation. The Department informed us that it recently formalized its inspection guidelines. However, related to this and other findings in this report, the Department believes that it has utilized resources in an efficient manner to achieve maximum compliance rates. Also, the Department indicated that many surrounding states do not conduct quality inspection activities and their level of current inspection coverage may be supported by fee-based services, which is a funding method that is not utilized in Michigan. In addition, the Department informed us that increasing inspection coverage in Michigan, in terms of amount and frequency, would require significant additional resources.

FINDING

4. Tracking and Monitoring of Inspections

The Division's data management systems used to track and monitor inspection results did not contain complete and accurate information. This impairs the Division's ability to ensure compliance with motor fuel quality and quantity laws and regulations designed to protect consumers and provide for fairness among those in the gasoline industry.

The Division utilized an inspections database to track quality and quantity inspection results. The database contained such information as the establishment identification number, the reason for the inspection, the types of violations noted, and the resulting action taken by the Division. Specific codes were used to indicate whether the gas stations passed or failed inspections.

Our review of 142 inspections (69 quality inspections and 73 quantity inspections) conducted at 50 retail gas stations during our audit period disclosed:

- a. The Division identified 42 violations as a result of 12 (16%) of the 73 quantity inspections. However, the Division did not record the appropriate action code, violation code, or inspection results for 4 (10%) of the 42 violations.
- b. The Division did not record in its database 20 violations noted from 17 (12%) of the 142 inspections, even though violations were noted in the hard copy files.

In addition, we reviewed 20 quality inspections in the database that contained pass or fail codes indicating that the gas stations were approved with violations noted, that no actions were taken, or that the stations were under investigation. Our review of hard copy documentation for these inspections disclosed that 3 (15%) of the 20 inspections in the database contained different conclusions than the documentation contained in the hard copy files. For the 3 inspections, the gas tested failed to meet the anti-knock index* (AKI) minimum standards; however, the database did not indicate the failures.

The inspections data should be used as a tool in helping management prioritize its inspection efforts and monitor inspection results. Improving the completeness and accuracy of information in the data management systems would assist the Division to more effectively and efficiently ensure compliance with motor fuel laws and regulations.

RECOMMENDATION

We recommend that the Division improve the completeness and accuracy of the information in its data management systems used to track and monitor inspection results.

* See glossary at end of report for definition.

AGENCY PRELIMINARY RESPONSE

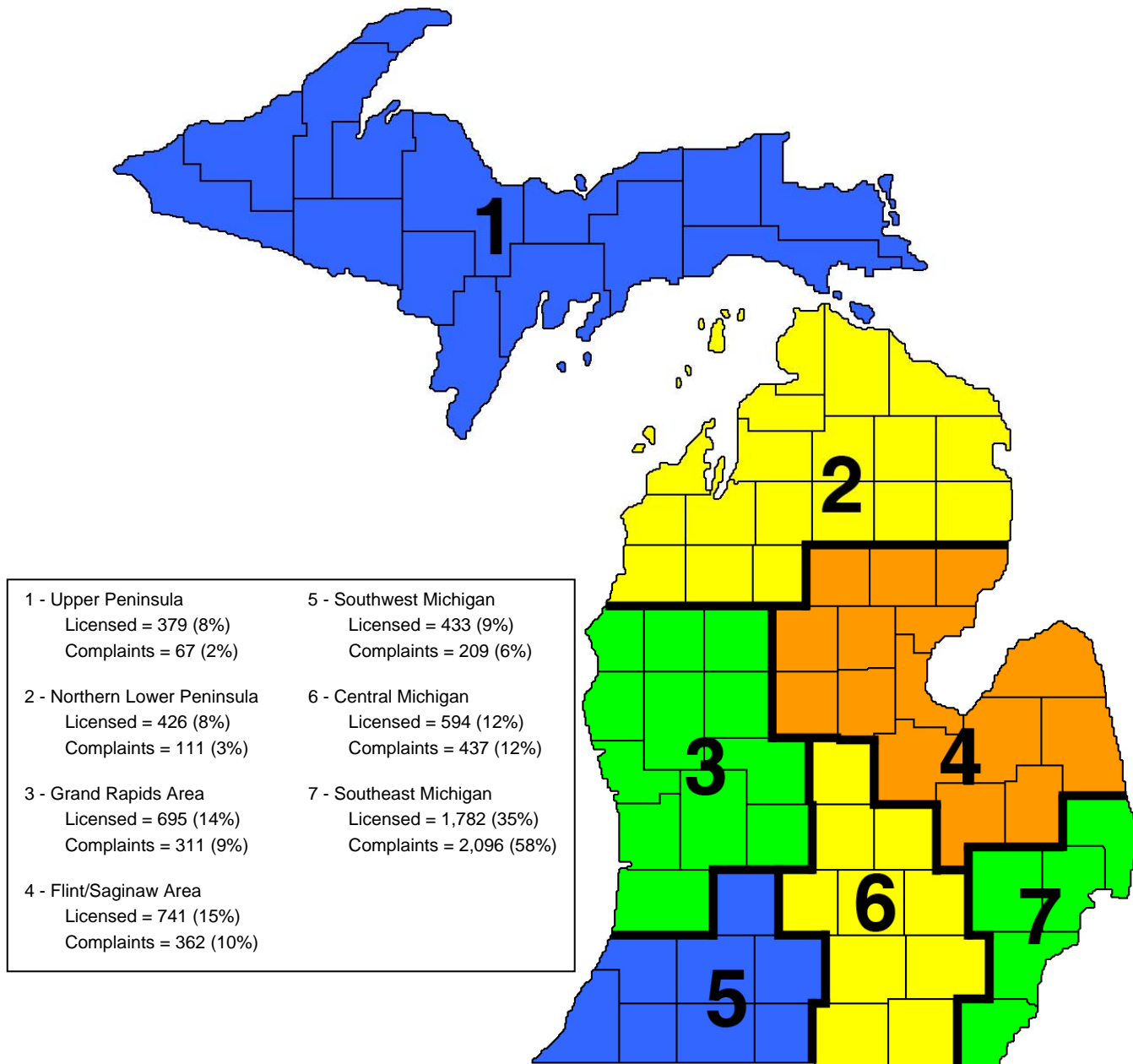
The Department agrees with the recommendation. The Department informed us that the database provides only a portion of the information used to support inspection and enforcement activities. The Department indicated that improvements to the automated information system could improve the overall efficiency of the Division's motor fuel inspection and enforcement program. The Department also indicated that it is currently working with vendors on a proposal for the acquisition of a new information system, subject to budget limitations.

SUPPLEMENTAL INFORMATION

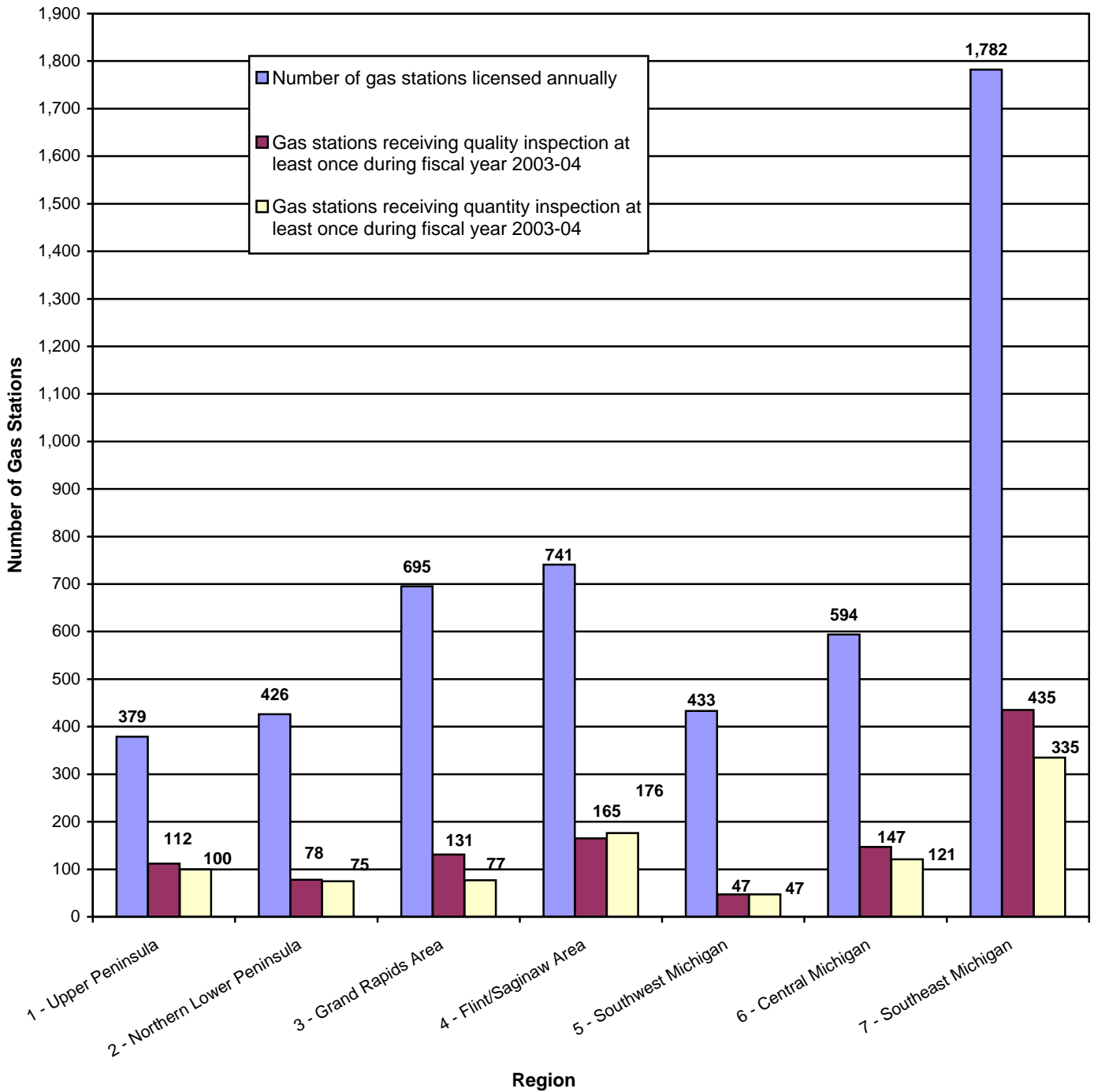
LABORATORY DIVISION

Department of Agriculture

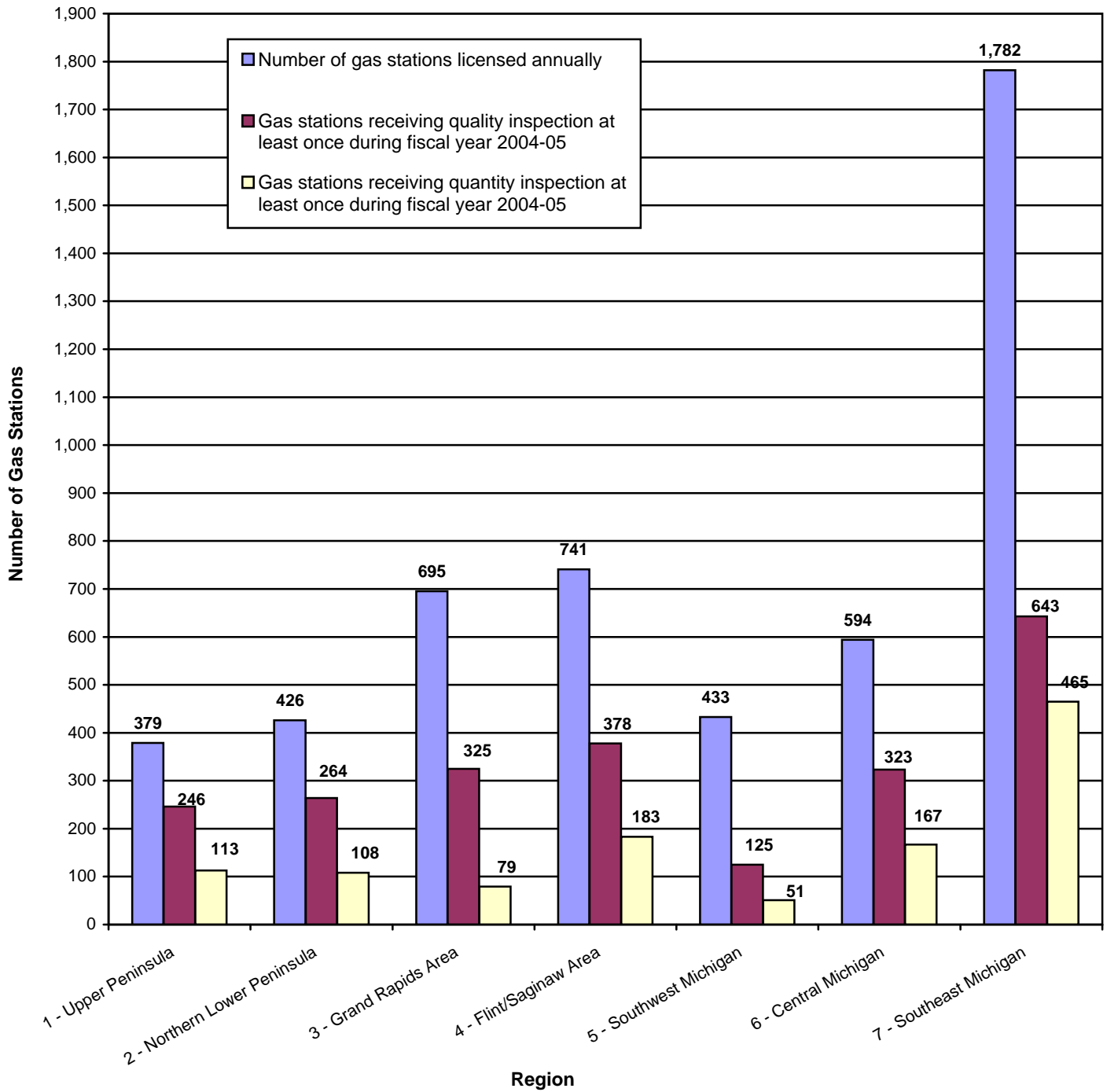
Percent of Total Gas Stations Licensed Annually by Region
and Percent of Total Complaints Received by Region
October 1, 2003 through May 31, 2006



LABORATORY DIVISION
 Department of Agriculture
 Comparison of Number of Gas Stations Licensed Annually
 to Number of Quality and Quantity Inspections Completed
During Fiscal Year 2003-04



LABORATORY DIVISION
 Department of Agriculture
 Comparison of Number of Gas Stations Licensed Annually
 to Number of Quality and Quantity Inspections Completed
During Fiscal Year 2004-05



GLOSSARY

Glossary of Terms

anti-knock index (AKI)	An index determined by the equation $(RON + MON)/2$. The research octane number (RON) is a knock characteristic of automotive gasoline determined by use of standard procedures on a research engine. The motor octane number (MON) is a knock characteristic of automotive gasoline determined by use of standard procedures on a motor engine.
distributor	A person who purchases, transports, or stores or causes the transportation or storage of gasoline at any point between a gasoline refinery and a retail outlet or bulk purchaser-end user facility.
effectiveness	Program success in achieving mission and goals.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
mission	The agency's main purpose or the reason that the agency was established.
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 either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

vapor recovery testing Testing performed on gas stations located in Wayne, Livingston, Washtenaw, Oakland, Macomb, St. Clair, and Monroe Counties that are required to meet vapor recovery requirements of the Motor Fuels Quality Act (Act 44, P.A. 1984). The Act requires the Department of Agriculture to conduct a minimum of one compliance inspection per year per dispensing facility, with mandatory reinspection of dispensing facilities that are found to be in violation of the Act or rules promulgated under the Act.

