



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

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

*Selected Activities Within the Bureau of
 Construction Codes*

Department of Energy, Labor & Economic Growth

Report Number:
 641-0240-09

Released:
 July 2010

The mission of the Bureau of Construction Codes is to ensure that Michigan's built environment and the systems within are sound, safe, and sanitary; that building users' health, safety, and welfare are protected; and that, through a coordinated program of code compliance, investigation, and training, there is consistent application of standards.

Audit Objective:

To assess the effectiveness and efficiency of the Bureau's efforts to conduct boiler, elevator, and manufactured housing community inspections.

Audit Conclusion:

The Bureau was moderately effective and efficient in its efforts to conduct boiler, elevator, and manufactured housing community inspections. We noted one material condition (Finding 1) and three reportable conditions (Findings 2 through 4).

Material Condition:

The Bureau did not ensure that violations identified during boiler and elevating equipment inspections were corrected in a timely manner (Finding 1).

Reportable Conditions:

The Bureau did not inspect boilers in a timely manner (Finding 2).

The Bureau did not inspect elevators and elevating equipment in a timely manner (Finding 3).

The Bureau's controls over boiler and elevating equipment inspections did not ensure that inspection fees were properly collected. As a result, the Bureau had not collected boiler and elevating equipment inspection fees totaling \$468,745 (Finding 4).

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Audit Objective:

To assess the effectiveness and efficiency of the Bureau's efforts to investigate complaints regarding trade contractors and manufactured housing dealers, installers, repairers, and operators.

Audit Conclusion:

The Bureau was effective and efficient in its efforts to investigate complaints regarding trade contractors and manufactured housing dealers, installers, repairers, and operators. Our audit report does not include any reportable conditions related to this audit objective.

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Audit Objective:

To assess the effectiveness of the Bureau's controls over the receipting and accounting of revenue collected by the Bureau.

Audit Conclusion:

The Bureau's controls over the receipting and accounting of revenue collected by the Bureau were moderately effective. We noted two reportable conditions (Findings 5 and 6).

Reportable Conditions:

The Bureau had not established effective internal control over its cash receipts and inventory of construction code books at its office locations (Finding 5).

The Bureau did not perform periodic reconciliations of its database system (Permits Plus) with the Michigan Administrative Information Network (MAIN) (Finding 6).

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Audit Objective:

To assess the effectiveness of the Bureau's monitoring of open permits.

Audit Conclusion:

The Bureau was effective in its monitoring of open permits. However, we noted one reportable condition (Finding 7).

Reportable Condition:

The Bureau had not effectively monitored the status of permit inspections with outstanding violations (Finding 7).

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Agency Response:

Our audit report includes 7 findings and 7 corresponding recommendations. The Bureau's preliminary response indicates that it agrees with 6 recommendations and partially agrees with 1 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>



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AUDITOR GENERAL

July 20, 2010

Mr. Stanley F. Pruss, Director
Department of Energy, Labor & Economic Growth
Ottawa Building
Lansing, Michigan

Dear Mr. Pruss:

This is our report on the performance audit of Selected Activities Within the Bureau of Construction Codes, Department of Energy, Labor & Economic Growth.

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 this audit.

AUDITOR GENERAL

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Description of Agency

The mission* of the Bureau of Construction Codes is to ensure that Michigan's built environment* and the systems within are sound, safe, and sanitary; that building users' health, safety, and welfare are protected; and that, through a coordinated program of code compliance, investigation, and training, there is consistent application of standards.

The Bureau of Construction Codes consists of the following 12 divisions and offices:

- Boiler Division
- Building Division
- Electrical Division
- Elevator Division
- Office of Land Survey and Remonumentation
- Office of Local Government and Consumer Services
- Mechanical Division
- Plan Review Division
- Plumbing Division
- Office of Management Services
- Office of Administrative Services
- Office of Administration

For fiscal year 2008-09, the Bureau's revenues totaled \$25,949,975 and expenditures totaled \$23,453,305. The Bureau employed 154 employees as of September 30, 2009.

* See glossary at end of report for definition.

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

Audit Objectives

Our performance audit* of Selected Activities Within the Bureau of Construction Codes, Department of Energy, Labor & Economic Growth, had the following objectives:

1. To assess the effectiveness* and efficiency* of the Bureau's efforts to conduct boiler, elevator, and manufactured housing community inspections.
2. To assess the effectiveness and efficiency of the Bureau's efforts to investigate complaints regarding trade contractors and manufactured housing dealers, installers, repairers, and operators.
3. To assess the effectiveness of the Bureau's controls over the receipting and accounting of revenue collected by the Bureau.
4. To assess the effectiveness of the Bureau's monitoring of open permits.

Audit Scope

Our audit scope was to examine the program and other records of selected activities within the Bureau of Construction Codes. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, conducted from May through September 2009, generally covered the period October 1, 2007 through September 30, 2009.

Audit Methodology

To establish our audit objectives, we conducted a preliminary review of the Bureau's operations that included discussions with Bureau staff regarding their functions and responsibilities. In addition, we reviewed the Bureau's policies and procedures and applicable laws and regulations, and we analyzed program data.

* See glossary at end of report for definition.

To assess the effectiveness and efficiency of the Bureau's efforts to conduct boiler, elevator, and manufactured housing community inspections, we interviewed Bureau staff to obtain an understanding of the Bureau's inspection process. In addition, we analyzed the number of examinations and investigations completed by the Bureau during our audit period.

To assess the effectiveness and efficiency of the Bureau's efforts to investigate trade contractor and manufactured housing related complaints, we reviewed complaints for documentation adequacy, complainant resolution, and timeliness.

To assess the effectiveness of the Bureau's controls over the receipting and accounting of revenue collected by the Bureau, we interviewed Bureau staff to obtain an understanding of the Bureau's revenue collection process and the controls over that process. In addition, we reviewed revenue records for documentation adequacy.

To assess the effectiveness of the Bureau's monitoring of open permits, we interviewed Bureau staff to obtain an understanding of the Bureau's open permit monitoring process. In addition, we analyzed open permit data for documentation adequacy.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 7 findings and 7 corresponding recommendations. The Bureau's preliminary response indicates that it agrees with 6 recommendations and partially agrees 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 Bureau to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

In August 2001, we released our performance and financial audit of the Bureau of Construction Codes (63-460-00), which included 7 audit recommendations. In July 2005, we released a follow-up report (63-460-00F) that included follow-up on the material finding and its 2 corresponding recommendations. During the follow-up, we determined that the Bureau had partially complied with these 2 prior audit recommendations.

Of the 7 prior audit recommendations, we followed up the 6 that were within the scope of this audit. We determined that the Bureau complied with 1 prior audit recommendation. The Bureau agreed to comply with the other 5 recommendations, but it did not. These 5 prior audit recommendations were repeated in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

INSPECTIONS

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Bureau of Construction Codes' efforts to conduct boiler, elevator, and manufactured housing community inspections.

Audit Conclusion: **The Bureau was moderately effective and efficient in its efforts to conduct boiler, elevator, and manufactured housing community inspections.** Our audit disclosed one material condition*. The Bureau did not ensure that violations identified during boiler and elevating equipment inspections were corrected in a timely manner (Finding 1).

Our audit also disclosed three reportable conditions* related to boiler inspections, elevator inspections, and inspection fees (Findings 2 through 4).

FINDING

1. Monitoring of Correction Orders

The Bureau did not ensure that violations identified during boiler and elevating equipment inspections were corrected in a timely manner. As a result, some violations related to boilers and elevating equipment, if uncorrected, could become an endangerment to users.

The Bureau's practice is to issue a correction order when a violation is identified. As of July 31, 2009, there were 1,712 outstanding correction orders resulting from boiler inspections dating from January 1991 and 12,678 outstanding correction orders resulting from elevating equipment inspections dating from August 1988. The Bureau informed us that these outstanding correction orders and uncorrected violations were minor in nature and did not endanger users of the equipment; however, the Bureau did not have documentation to substantiate this claim.

In August 2001, we conducted a performance and financial audit of the Bureau of Construction Codes (63-460-00) and noted that the Bureau did not ensure that violations identified during inspections were corrected in a timely manner. The Bureau indicated that it agreed with our recommendation and would comply.

* See glossary at end of report for definition.

In July 2005, we conducted a follow-up (63-460-00F) to the performance and financial audit of the Bureau of Construction Codes and noted that the Bureau still had not ensured that violations identified during inspections were corrected in a timely manner. The Bureau again indicated that it agreed with our recommendation and would comply. However, as of September 2009, the Bureau had not fully implemented this recommendation.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE BUREAU ENSURE THAT VIOLATIONS IDENTIFIED DURING BOILER AND ELEVATING EQUIPMENT INSPECTIONS ARE CORRECTED IN A TIMELY MANNER.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees. Although the Bureau does not believe that the uncorrected boilers and elevating equipment violations (cited in the audit) present a danger to users, it recognizes the need to improve upon its process of documenting the identified levels of risk that each violation poses to public safety on its inspection reports and tracking devices in order to ensure that follow-up is properly prioritized and executed within a reasonable time frame. The Bureau claims that it will continue to follow policies and procedures that mandate timely follow-up of major violations and will instruct inspectors to seal devices out-of-service if they pose a risk to public safety.

Also, the Bureau stated that the Boiler Division is in the process of implementing its first ever on-line system, Jurisdiction On-Line (JOL), for inspection staff. The Bureau stated that this is not the Bureau's first attempt to secure an on-line system; however, previous systems simply were unable to meet program needs. The Bureau added that the JOL will increase the capability of the Boiler Division's inspectors to obtain reports of outstanding correction orders for appropriate follow-up. The Bureau stated that it expects training for implementation of JOL to begin in June 2010, with full implementation to occur a few months later. The Bureau added that in the meantime it will continue to categorize and prioritize corrective action follow-up activities in a manner that ensures public safety.

FINDING

2. Boiler Inspections

The Bureau did not inspect boilers in a timely manner. Timely inspection of boilers is necessary to ensure that the public is protected from the operation of unsafe boilers.

Section 408.769 of the *Michigan Compiled Laws* and *Michigan Administrative Code* R 408.4057 require annual, biennial, or triennial inspections of boilers depending on the type of boiler. Inspections determine whether a boiler has been constructed, installed, repaired, and operated in accordance with the Boiler Act of 1965.

As of August 4, 2009, the Bureau's database showed that 10,156 (14%) of the State's 72,574 registered boilers were overdue for inspection. Of the registered boilers overdue for inspection, 4,067 (40%) were insured boilers and, therefore, the responsibility of private insurance companies. However, if the insurance companies failed to file an inspection report, as required by Section 408.770 of the *Michigan Compiled Laws*, the inspections became the Bureau's responsibility.

The following table presents an aging of the overdue boiler inspections:

| Days Inspection Overdue | Number of Overdue Inspections | |
|----------------------------|-------------------------------|-------------------------------------|
| | Inspected by the Bureau | Inspected by Insurance Companies |
| 1 - 30 | 1,007 | 930 |
| 31 - 90 | 1,046 | 825 |
| 91 - 180 | 895 | 473 |
| 181 - 360 | 819 | 424 |
| 361 - 545 | 657 | 298 |
| 546 - 720 | 499 | 283 |
| Over 720 | 1,166 | 834 |
| | <u>6,089</u> | <u>4,067</u> |

Our August 2001 performance and financial audit of the Bureau of Construction Codes (63-460-00) reported that the Bureau did not inspect boilers in a timely manner. The Bureau stated that it agreed with the recommendation and would modify its procedures to place priority on inspections that are overdue. Although

the Bureau modified its procedures regarding priority inspections, it did not comply with the recommendation to inspect boilers in a timely manner.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE BUREAU INSPECT BOILERS IN A TIMELY MANNER AS REQUIRED BY SECTION 408.769 OF THE *MICHIGAN COMPILED LAWS* AND *MICHIGAN ADMINISTRATIVE CODE* R 408.4057.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees. The Bureau stated that the greatest contributing factor to the lack of timely inspections is that the Boiler Division experiences difficulty recruiting qualified inspectors. The Bureau expressed difficulty attracting qualified boiler inspectors because the Civil Service pay scale for this classification is not competitive with salaries offered in the private sector. The Bureau plans to jointly pursue a salary increase for boiler inspectors through Department of Energy, Labor & Economic Growth (DELEG) Human Resources, the Civil Service Commission, and the Office of the State Employer. In the meantime, the Bureau stated that it continues to recruit qualified candidates by posting jobs on the Civil Service Commission Web site, by posting jobs on the National Board of Boiler and Pressure Vessel Inspectors Web site, and by sending mailers of job vacancies to all licensees.

The Bureau stated that it has created an entry level inspector position restricted to inspecting certain types of boilers. The Bureau added that this has resulted in the Boiler Division being able to hire inspectors capable of conducting inspections on small boilers while gaining the experience and training necessary (along with passing a written examination) to become a fully commissioned inspector.

Also, the Bureau stated that the Boiler Division is in the process of implementing a JOL. Once fully implemented, JOL will assist in achieving efficiencies and, in time, increase inspection activity.

The Bureau further emphasizes that, without maintaining a full staff, the Boiler Division will continue to experience difficulty meeting its inspection demands. In addition, the Bureau stated that the State government shut downs and mandated furlough days adversely impacted the number of inspections conducted during the audit period.

FINDING

3. Elevator Inspections

The Bureau did not inspect elevators and elevating equipment in a timely manner. Timely inspections of elevators and elevating equipment is necessary to ensure that the elevators and elevating equipment have received the routine maintenance and required repairs necessary to ensure that the public is protected from the operation of unsafe elevators and elevating equipment.

Michigan Administrative Code R 408.7011 requires that passenger and freight elevators, escalators, inclined lifts, belt manlifts, and special elevating devices be inspected annually and that dumbwaiters, one-person elevators, wheelchair-elevating devices in buildings other than private residences, and sidewalk elevators be inspected biennially.

As of August 12, 2009, the State had 23,227 elevating devices that required annual inspection and 2,828 that required biennial inspection. We determined that for 6,817 (29%) of the 23,227 devices that required an annual inspection and for 737 (26%) of the 2,828 devices that required a biennial inspection, inspections were not current as of August 12, 2009.

The following table summarizes the annual and biennial elevator inspections overdue for inspection:

| <u>Months Inspection Overdue</u> | <u>Number of Overdue Annual Inspections</u> | <u>Number of Overdue Biennial Inspections</u> |
|--------------------------------------|---|---|
| 1 - 6 | 3,984 | 251 |
| 7 - 12 | 957 | 85 |
| 13 - 24 | 809 | 138 |
| 25 - 60 | 561 | 159 |
| 61 - 120 | 325 | 62 |
| Over 120 | 181 | 42 |
| | <u>6,817</u> | <u>737</u> |

Our August 2001 performance and financial audit of the Bureau of Construction Codes (63-460-00) reported that the Bureau did not inspect elevators and elevating equipment in a timely manner. The Bureau stated that it agreed with the recommendation and would evaluate possible corrective actions that involve a

combination of either increasing the number of inspections per employee or obtaining additional staff for the elevator inspection program. However, the Bureau has not complied with the recommendation.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE BUREAU INSPECT ELEVATORS AND ELEVATING EQUIPMENT IN A TIMELY MANNER AS REQUIRED BY *MICHIGAN ADMINISTRATIVE CODE R 408.7011*.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees. The Bureau attributes the deficiency in the number of elevator inspections performed to two long-standing vacancies for inspectors in the Elevator Division. The Bureau expressed difficulty attracting qualified elevator inspectors because the Civil Service pay scale for this classification is not competitive with salaries offered in the private sector. The Bureau plans to jointly pursue a salary increase for boiler and elevator inspectors through DELEG Human Resources, the Civil Service Commission, and the Office of the State Employer. In the meantime, the Bureau stated that it continues to recruit qualified candidates by posting jobs on the Civil Service Commission Web site, by posting jobs in elevator industry publications, and by sending mailers of job vacancies to all licensees.

The Bureau emphasizes that without maintaining a full staff, the Elevator Division will continue to experience difficulty meeting inspection demands. In addition, the Bureau stated that the State government shut downs and mandated furlough days adversely impacted the number of inspections conducted during the audit period.

FINDING

4. Inspection Fees

The Bureau's controls over boiler and elevating equipment inspections did not ensure that inspection fees were properly collected. As a result, the Bureau had not collected boiler and elevating equipment inspection fees totaling \$468,745.

The Bureau is required by statute to conduct inspections of boilers and elevating devices and elevating equipment and to assess inspection fees related to the inspections. At the time of our audit, there were 72,574 boilers and 26,055 elevating devices and related elevating equipment. The Bureau's procedures

provide that owners remit the inspection fees within 90 days of the issuance of an inspection invoice for boilers and 60 days for an inspection invoice for elevating devices and elevating equipment.

As of July 30, 2009, the Bureau had outstanding invoices containing 4,675 charges totaling \$328,480 for boiler inspection fees and 1,461 charges totaling \$140,265 for elevating equipment inspection fees. Some of the invoices dated back to 1999.

Our August 2001 performance and financial audit of the Bureau of Construction Codes (63-460-00) reported that the Bureau's controls over boiler and elevating equipment inspections did not ensure that inspection fees were properly collected. The Bureau indicated that it agreed with our recommendation and would comply.

Our July 2005 follow-up (63-460-00F) to the performance and financial audit of the Bureau of Construction Codes noted that the Bureau improved its controls over the collection of inspection fees but had not fully complied with the recommendation. The Bureau again indicated that it agreed with our recommendation and would comply. However, as of September 2009, the Bureau had not fully implemented this recommendation.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE BUREAU IMPROVE ITS CONTROLS TO ENSURE THAT INSPECTION FEES ARE PROPERLY COLLECTED.

AGENCY PRELIMINARY RESPONSE

The Bureau partially agrees. Although the Bureau agrees that additional improvement in collection procedures is necessary, the Bureau disagrees with certain aspects of the finding.

The Bureau informed us that the Boiler Division has detailed written procedures for handling nonpayment of invoices. The Bureau stated that the procedure is invoked when an invoice has been issued and becomes more than 90 days overdue. The Bureau also stated that the procedure details several steps to be taken by the Boiler Division staff before the unpaid debt is finally transferred to the Department of Treasury for collection. The Bureau indicated that the Department of Treasury requires that these unpaid debts be at least 180 days old before they are submitted.

The Bureau stated that many outstanding debts are less than \$100, thus, not eligible for referral to the Department of Treasury for collection. Accordingly, the Bureau stated that new fees implemented in fiscal year 2008-09 rectify this situation for the future and that the Bureau is working on a process to write off long, outstanding debts less than \$100 (where appropriate). The Bureau also stated that Boiler Division management intends to review unpaid and uncollected debts more than five years old to determine whether to continue to attempt collection or write off the debt.

Also, the Bureau informed us that the Elevator Division initiated overdue invoice procedures in April 2005. The Bureau stated that, at that time, the Elevator Division had \$98,935 in unpaid invoices which were more than 180 days overdue. The Bureau also stated that, at the time of the audit, unpaid invoices more than 180 days overdue totaled \$17,345. The Bureau further stated that the \$140,265 value that the audit is reporting refers to all money owed past 60 days. The Bureau added that, at 60 days, customers receive their first overdue notice and that collection efforts do not start until the second overdue notice (30 days later), which includes a letter citing enforcement codes. The Bureau stated that this letter is designed to encourage customers to pay their invoices. According to the Bureau, once an invoice is six months old, staff initiate telephone calls soliciting payment. Also, per the Bureau, it has been determined that the six-month mark is a manageable amount of invoices to make follow-up calls.

TRADE CONTRACTOR AND MANUFACTURED HOUSING COMPLAINTS

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Bureau's efforts to investigate complaints regarding trade contractors and manufactured housing dealers, installers, repairers, and operators.

Audit Conclusion: **The Bureau was effective and efficient in its efforts to investigate complaints regarding trade contractors and manufactured housing dealers, installers, repairers, and operators.** Our audit report does not include any reportable conditions related to this audit objective.

RECEIPTING AND ACCOUNTING OF REVENUE COLLECTED

COMMENT

Audit Objective: To assess the effectiveness of the Bureau's controls over the receipting and accounting of revenue collected by the Bureau.

Audit Conclusion: **The Bureau's controls over the receipting and accounting of revenue collected by the Bureau were moderately effective.** Our audit disclosed two reportable conditions related to the Bureau's controls over cash receipts and inventory of construction code books and the reconciliation of Permits Plus (Findings 5 and 6).

FINDING

5. Controls Over Cash Receipts and Inventory of Construction Code Books

The Bureau had not established effective internal control over its cash receipts and inventory of construction code books at its office locations. As a result, the Bureau could not detect and address errors or irregularities in a timely manner.

Section 18.1485 of the *Michigan Compiled Laws* requires the Bureau to establish and maintain an internal accounting and administrative control system that includes the following: a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; qualified personnel to maintain a level of competence; and internal techniques that are effective and efficient.

During fiscal year 2008-09, the Bureau receipted approximately \$1.6 million at its three office locations, which include the Office of Management Services, Boiler Division, and Elevator Division. The Bureau collects cash at its office locations for affidavits of affixture (manufactured housing), examination applications, license fees, permit applications, plan review fees, and sales of construction code books. The Bureau uses Permits Plus and other database systems to track and record the revenue and the associated revenue activity.

Our review of the handling of cash receipts and inventory control at the Bureau's office locations disclosed:

- a. The Bureau did not maintain a proper segregation of duties between the functions of handling cash receipts and sending cash receipts to DELEG's Revenue Services Unit for deposit. In addition, permit application and construction code book sales information is entered into the Bureau's databases by the same person receipting the cash. Proper segregation of duties is critical to effective internal control as it reduces the risk of errors and irregularities.
- b. The Bureau did not ensure that cash receipts received by mail were opened in the presence of two employees at its office locations. Also, the Bureau generally did not maintain a log of these cash receipts. Implementation of such controls is important to reduce the risk of errors or irregularities. The Boiler Division office location was the only office that maintained a log of cash receipts.

The State of Michigan Financial Management Guide (Part II, Chapter 9, Section 100) states that cash received by mail should be recorded on a cash log prepared by the mail openers, of which there should be a minimum of two.

- c. The Bureau issued receipts that were not always sequentially numbered for walk-in transactions. This control helps reduce the risk of errors or irregularities. We reviewed receipts for 85 business days and noted that the receipts were not sequentially numbered for 45 (53%) of the 85 days.

The State of Michigan Financial Management Guide (Part II, Chapter 9, Section 100) states that cash received on site other than by mail should be receipted using a prenumbered cash receipt if a cash register or validating machine is unavailable.

- d. The Bureau did not restrictively endorse checks immediately upon receipt. This control would help reduce the risk of errors or irregularities. Checks are not endorsed until they are processed centrally by DELEG's Revenue Services Unit.

The State of Michigan Financial Management Guide (Part II, Chapter 9, Section 100) states that checks must be restrictively endorsed immediately upon receipt.

- e. The Bureau did not maintain an inventory of construction code books and therefore could not reconcile code book inventory with purchases and sales. Reconciliation of inventory records would help reduce the risk of errors or irregularities. The Bureau receives approximately \$85,000 per year from the sale of construction code books.

The State of Michigan Financial Management Guide (Part II, Chapter 12, Section 100) states that each agency that maintains inventory is responsible for implementing and maintaining an inventory accounting system that provides adequate internal control. It also states that the accuracy of inventory systems must be verified by an annual physical inventory count scheduled by the agency.

RECOMMENDATION

We recommend that the Bureau establish effective internal control over its cash receipts and inventory of construction code books at its office locations.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees. The Bureau stated that additional internal control over the Bureau's cash receipts and code book inventory is necessary:

- a. Proper Segregation of Duties

The Bureau stated that it has experienced staff shortages but will assign at least two separate persons to handling cash receipts and sending the receipts to the Revenue Services Unit, as well as receipting cash and entering permits and code book sales into the Bureau's databases.

- b. Mail Receipts and Cash Receipts Log

The Bureau stated that it has experienced staff shortages but will assign at least two separate persons to open all mail. A request has been made to the Department of Technology, Management & Budget (DTMB) for a new database system that will have a cash receipts log, produce sequentially numbered receipts, and maintain an inventory of the Bureau's code books.

c. Sequentially Numbered Receipts

The Bureau stated that it has submitted a request to DTMB for a new database system that will have a cash receipts log, produce sequentially numbered receipts, and maintain an inventory of the Bureau's code books.

d. Endorse Checks Upon Receipt

The Bureau added that it is now endorsing checks immediately upon receipt at its main reception area. The Bureau also stated that additional endorsement stamps have been ordered for the other Bureau office locations.

e. Code Book Inventory

The Bureau has submitted a request to DTMB for a new database system that has a cash receipt log, produce sequentially numbered receipts, and maintain an inventory of the Bureau's code books.

FINDING

6. Reconciliation of Permits Plus

The Bureau did not perform periodic reconciliations of its database system (Permits Plus) with the Michigan Administrative Information Network* (MAIN). Without periodic reconciliations, errors may not be detected in a timely manner and accounting information within Permits Plus and MAIN may not be appropriately recorded.

Section 18.1485 of the *Michigan Compiled Laws* requires the Bureau to establish and maintain effective internal accounting and administrative control procedures. Effective internal control procedures include periodic reconciliation of decentralized subsidiary ledgers with the general accounting system's (MAIN's) control totals.

The Bureau uses Permits Plus to record, track, and manage permits. Through Permits Plus, the Bureau issued 18,628 and 18,382 permits for fiscal years 2006-07 and 2007-08, respectively. The Bureau enters permit application information, including revenues received, into Permits Plus based on the original applications and money received by the Bureau. Permits Plus provides account code information that would allow periodic reconciliation of permit revenues with MAIN.

* See glossary at end of report for definition.

Our August 2001 performance and financial audit of the Bureau of Construction Codes (63-460-00) reported that the Bureau should reconcile its permit database system (Permits Plus) with MAIN to improve its effectiveness as a management tool. The Bureau stated that it agreed with the recommendation and would develop procedures to reconcile Permits Plus with MAIN. However, the Bureau has not fully complied with this recommendation.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE BUREAU PERFORM PERIODIC RECONCILIATIONS OF PERMITS PLUS WITH MAIN.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees. The Bureau stated that it is working on procedures such that revenue from licenses and permits entered into Permits Plus (and all other databases) will be reconciled with MAIN.

OPEN PERMITS

COMMENT

Audit Objective: To assess the effectiveness of the Bureau's monitoring of open permits.

Audit Conclusion: **The Bureau was effective in its monitoring of open permits.** However, our audit report disclosed one reportable condition related to permit monitoring (Finding 7).

FINDING

7. Permit Monitoring

The Bureau had not effectively monitored the status of permit inspections with outstanding violations. As a result, projects that required permits may have been completed without the final inspection required by the Bureau. Such final inspections ensure that the building users' health, safety, and welfare are protected as described in the Bureau's mission statement.

The Bureau issues permits for installation, construction, and other projects involving building, electrical, mechanical, and plumbing contractors and performs inspections to ensure compliance with standards adopted by the Bureau.

The following table represents the Bureau's inactivity on 45 permits that were issued for periods longer than 6 months, had outstanding violations, and were not monitored by the Bureau:

| <u>Years Since Last Activity</u> | <u>Number of Permits</u> |
|--------------------------------------|------------------------------|
| 1 - 2 | 13 |
| 2 - 3 | 2 |
| 3 - 4 | 18 |
| 4 - 5 | 6 |
| 5 - 6 | 5 |
| Over 6 | 1 |
| | <u>45</u> |

Bureau follow-up on permit inspections with outstanding violations would help ensure that the permitted activity received a final inspection, thus providing assurance that the violation was corrected.

RECOMMENDATION

We recommend that the Bureau resolve the status of permit inspections with outstanding violations.

AGENCY PRELIMINARY RESPONSE

The Bureau agrees. The Bureau stated that it is working on procedures and processes such that an inspector will be able to resolve the status of permit inspections with outstanding violations.

GLOSSARY

Glossary of Acronyms and Terms

| | |
|--|--|
| built environment | The man-made surroundings that support human activity. |
| DELEG | Department of Energy, Labor & Economic Growth. |
| DTMB | Department of Technology, Management & Budget. |
| effectiveness | Success in achieving mission and goals. |
| efficiency | Achieving the most outputs and outcomes practical with the minimum amount of resources. |
| JOL | Jurisdiction On-Line. |
| 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. |
| Michigan Administrative Information Network (MAIN) | The State's automated administrative management system that supports accounting, purchasing, and other financial management activities. |
| mission | The main purpose of a program or an agency or the reason that the program or 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 program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability. |

reportable condition

A matter that, in the auditor's judgment, falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

