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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF LICENSING AND REGULATORY AFFAIRS
FINANCE AND ADMINISTRATIVE SERVICES
ALLAN R. POHL
DIRECTOR

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May 24, 2013

emailed 5/24/13 (ael)

Mr. Doug Ringler, Director
Office of Internal Audit Services
State Budget Office
Romney Building – Seventh Floor
111 S. Capitol, P.O. Box 30026
Lansing, Michigan 48909

Dear Mr. Ringler:

We are enclosing our response to comments made in the Office of the Auditor General's Performance Audit of Corporations, Securities and Commercial Licensing Bureau (formerly the Bureau of Commercial Services), Department of Licensing and Regulatory Affairs for the period October 1, 2009 through June 30, 2012.

If you have any questions regarding this report, please feel free to call me at (517) 335-9247.

Sincerely,

(SIGNED)

Allen Williams, Director
Finance & Administrative Services
Office of Audit & Financial Compliance

Enclosure

cc: Audit Distribution List
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Shelley Edgerton
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AUDIT RESPONSE SUMMARY

Performance Audit of Corporations, Securities and Commercial Licensing Bureau Department of Licensing and Regulatory Affairs (October 1, 2009 through June 30, 2012)

I. Citations complied with:

#2a. (in part).

#2b.

#3a. (in part).

#4.

II. Citations to be complied with:

#1. The estimated date of full compliance is contingent upon whether or not legislative action to fund vacant inspector positions occurs.

#3b. The estimated date of full compliance is contingent upon whether or not legislative action to fund vacant inspector positions occurs.

III. Citations agency disagrees with:

#2a. (in part).

#3a. (in part).

Audit Response

Corporations, Securities and Commercial Licensing Bureau Department of Licensing and Regulatory Affairs

FINDING #1 – Barbershop and Cosmetology Shop Inspections

CSCL did not perform all required inspections for barbershops and cosmetology shops. As a result, CSCL issued licenses to new barbershops and cosmetology shops prior to the shops satisfactorily passing an inspection. Also, CSCL could not ensure that existing barbershops and cosmetology shops were continually in compliance with the Occupational Code and applicable administrative rules, including whether the personnel performing the services were properly licensed and whether the barbershops and cosmetology shops met sanitation standards.

Final Response: CSCL agrees with this finding and continues to develop improvements to its inspection program utilizing existing (limited) resources that will bring the bureau more in line with the statutory mandate. CSCL estimates that full compliance with the statutory mandate would require an additional 18 full time equated employees at an annual cost of approximately \$2.5 million. CSCL and LARA will consider whether to lobby the legislature for funding to augment the inspection program.

The estimated date for full compliance is unavailable as it is contingent upon whether additional funding is received.

FINDING #2 – Complaints

CSCL did not process complaints filed against licensees in a timely manner. As a result, CSCL did not timely address issues brought to its attention and determine if corrective action should have been taken to protect the public.

Final Response: CSCL agrees in part with this finding. CSCL has complied with statutory requirements regarding complaint processing. CSCL now closely monitors and reviews open complaint files to ensure that delays in processing are addressed immediately. In addition, at LARA's Executive Office's direction, CSCL established new metric target levels and has experienced steady improvement in complaint processing times (through the investigative stage).

CSCL disagrees with the assertion that CSCL should set a performance measurement goal for processing complaints from intake to final decision. CSCL relinquishes control of a complaint file when it is submitted to the Michigan Administrative Hearing System for an administrative hearing. Accordingly, CSCL doesn't have the ability to track or influence the timeliness of complaints after it completes the investigative stage.

FINDING #3 – MiScorecard Performance Summary

CSCL did not fully report its regulatory activity performance in its MiScorecard. As a result, CSCL's MiScorecard did not provide users with a full understanding of its performance in meeting established goals and statutory requirements.

Specific deficiencies noted were:

- a. CSCL did not fully define its metric for processing complaints; and the metric did not measure the full complaint process including intake, investigation and adjudication.*
- b. CSCL had not established a meaningful performance measure for the CSCL MiScorecard related to conducting inspections.*

Final Response: CSCL agrees in part.

- a. CSCL agrees in part with Paragraph a. and has since redefined its metric for processing complaints. However, as stated in CSCL's response to Finding 2, CSCL purposely did not define a metric to measure the "full complaint process" (through adjudication stage) because this function is controlled by the Michigan Administrative Hearings System.
- b. CSCL agrees with Paragraph b. but has not designed metrics to measure the fulfillment of statutory requirements related to inspections because it does not have the resources to conduct such inspections (as explained in the response to Finding 1). The estimated date of compliance is unavailable as it is contingent upon whether additional funding is received.

FINDING #4 – Cash Receipts

CSCL did not always have sufficient internal control over its cash receipting process. As a result, CSCL could neither detect nor address errors or irregularities within its cash handling processes in a timely manner.

Final Response: CSCL agrees with this finding and has complied (as noted in the audit report).