

Office of the Auditor General  
Performance Audit Report

---

**Licensing and Regulating of Automotive-  
Related Businesses and Mechanics**

Department of State

December 2015

---

---

**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*

---



# OAG

Office of the Auditor General

## Report Summary

### *Performance Audit*

### *Licensing and Regulating of Automotive-Related Businesses and Mechanics Department of State*

**Report Number:**  
231-0701-15

**Released:**  
December 2015

The Department of State licenses and regulates automotive-related businesses and mechanics, including approximately 5,900 licensed dealers, 9,200 licensed repair facilities, and 30,300 certified mechanics. The Business Licensing Section receives applications, renewals, and change notifications for dealer and repair facility licensure and mechanic certification. The Business Regulation Section reviews case documentation related to noncompliance identified during investigations and inspections and determines the appropriate action to ensure future compliance with applicable laws, regulations, and rules.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of the Department's processes for licensing or certifying automotive-related businesses and mechanics.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Department should improve its automotive-related business licensing process to ensure that it licenses only qualified businesses and that it assesses all required fees. The Department licensed 5 repair facilities and 8 dealers that may not have been qualified ( <u>Finding #1</u> ).		X	Partially Agrees

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of the Department's processes for regulating automotive-related businesses and mechanics.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The Department had not developed management oversight and documentation requirements for closing its regulatory cases to ensure appropriate, consistent, and timely decisions. The Department closed 69.9% of cases with no sanctions and no required management review or approval ( <u>Finding #2</u> ).		X	Agrees

<b>Findings Related to This Audit Objective (Continued)</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
The Department needs to continue to improve the timeliness of its processing of open regulatory cases to ensure that consumers receive services from automotive-related businesses that are compliant with State laws, regulations, and rules. The Department exceeded its 180-day goal for 34.2% of closed cases ( <u>Finding #3</u> ).		X	Agrees

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: [www.audgen.michigan.gov](http://www.audgen.michigan.gov)

Office of the Auditor General  
201 N. Washington Square, Sixth Floor  
Lansing, Michigan 48913

**Doug A. Ringler, CPA, CIA**  
Auditor General

**Laura J. Hirst, CPA**  
Deputy Auditor General



# OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • [www.audgen.michigan.gov](http://www.audgen.michigan.gov)

**Doug A. Ringler, CPA, CIA**  
Auditor General

December 3, 2015

The Honorable Ruth Johnson  
Secretary of State  
Richard H. Austin Building  
Lansing, Michigan

Dear Secretary Johnson:

I am pleased to provide this performance audit report on the Licensing and Regulating of Automotive-Related Businesses and Mechanics, Department of State.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and submit it within 60 days of the date above to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,

Doug Ringler  
Auditor General



## TABLE OF CONTENTS

### LICENSING AND REGULATING OF AUTOMOTIVE-RELATED BUSINESSES AND MECHANICS

	<u>Page</u>
Report Summary	1
Report Letter	3
Audit Objectives, Conclusions, Findings, and Observations	
Licensing or Certifying Automotive-Related Businesses and Mechanics	8
Findings:	
1. Improvements needed for licensing automotive-related businesses.	9
Regulating Automotive-Related Businesses and Mechanics	12
Findings:	
2. Management oversight and documentation requirements needed.	14
3. Continued improvement of processing regulatory cases needed.	16
Agency Description	18
Audit Scope, Methodology, and Other Information	19
Glossary of Abbreviations and Terms	23





# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# LICENSING OR CERTIFYING AUTOMOTIVE-RELATED BUSINESSES AND MECHANICS

---

## BACKGROUND

The Department of State's Business Licensing Section annually licenses automotive-related businesses, including approximately 5,900 dealers and 9,200 repair facilities. Dealers include new vehicle dealers, used vehicle dealers, used vehicle parts dealers, brokers, distressed vehicle transporters, vehicle scrap metal processors, vehicle salvage pools, foreign salvage vehicle dealers, automotive recyclers, wholesaler vehicle licensees, and salvage vehicle agents. Repair facilities include facilities that offer services such as engine, transmission, brake, and electrical system repairs; engine tune-ups; motorcycle repairs; recreational trailer repairs; and body and collision repairs.

Also, the Licensing Section certifies mechanics who meet minimum competency standards through examinations administered by the Department or other recognized automotive groups. The Licensing Section annually certifies approximately 30,300 mechanics.

## AUDIT OBJECTIVE

To assess the effectiveness\* of the Department's processes for licensing or certifying automotive-related businesses and mechanics.

## CONCLUSION

Moderately effective.

## FACTORS IMPACTING CONCLUSION

- Timely issued 98.1% and 99.1% of dealer and repair facility licenses tested.
- Timely completed established place of business\* inspections, when necessary.
- Mechanic examinations tested the minimum general competency requirements.
- Reportable condition\* related to:
  - Issuance of licenses to repair facilities without verifying that applicants met all licensing requirements.
  - Renewal of licenses for new and used car dealers without verifying that they had an active associated licensed repair facility.
  - Lack of a process to ensure appropriateness of license fees received from repair facilities.

\* See glossary at end of report for definition.

## FINDING #1

---

### Improvements to licensing process needed.

---

---

The Department licensed 5 repair facilities and 8 dealers that may not have been qualified.

---

The Department should improve its automotive-related business licensing process to ensure that it licenses only qualified businesses and that it assesses all required fees.

We reviewed the applications of 27 dealers and 27 repair facilities newly licensed during our audit period. We also reviewed the most recent renewal applications for 25 licensed dealers and the 90 renewal applications submitted by 34 licensed repair facilities during our audit period. We noted:

- a. The Department issued new licenses to 5 (18.5%) of the 27 repair facility applicants without ensuring that the applicants met all of the licensing requirements. We noted that 1 applicant had a criminal conviction related to stolen property that could prohibit licensure and that 4 other applicants did not identify their employed certified mechanics' license number on their application.

Section 257.1322 of the *Michigan Compiled Laws* indicates that the Department may deny a license based on certain criminal convictions. Also, Section 257.1305 of the *Michigan Compiled Laws* requires that all motor vehicle repair facilities must employ at least one specialty or master mechanic certified in each category of repair that it provides.

The Department did not require staff to complete a checklist for reviewing applications to ensure that repair facility applicants provided complete information and met all licensing requirements.

- b. The Department renewed licenses for 8 (42.1%) of the 19 new and used car dealers without ensuring that the applicants met all of the licensing requirements.

Section 257.14 of the *Michigan Compiled Laws* requires that new and used car dealers meet established place of business requirements, including a licensed repair facility on site or an agreement with a licensed repair facility within 10 miles of the dealer's location.

The dealer renewal forms did not request the licensee to provide information regarding the dealer's associated licensed repair facility. In addition, the Department's system may not identify dealers without an associated licensed repair facility.

- c. The Department did not have a process to ensure that it received the appropriate license fees from repair facilities.

Section 18.1485 of the *Michigan Compiled Laws* requires each department to establish an internal

accounting and administrative control system. Effective internal control\* techniques would include a process to verify the completeness and accuracy of revenue received.

Section 257.1330 of the *Michigan Compiled Laws* establishes fees for repair facilities using a sliding fee scale, ranging from \$25 to \$500, based upon the repair facilities' gross annual revenue\*. The Department collected fees based on revenue as reported by the licensees. We determined that the revenue reported on 19 (16.2%) of the 117 repair facility applications appeared to be questionable when we considered other reported information, such as the number of mechanics employed and the geographic location of the licensee, as well as the fact that the average wage of a mechanic in Michigan is approximately \$40,000 (based on statistics from the Bureau of Labor Statistics, U.S. Department of Labor).

For these 19 repair facility applications, we noted that the licensees reported that they employed from 1 to 7 mechanics. Also, our research identified large buildings at the applicants' addresses and, in some instances, signs in front of the buildings indicating many services offered, such as tune-ups and engine, brake, suspension, and electrical repairs.

The following table summarizes the number of repair facilities licensed during the audit period by the gross annual revenue categories identified in Section 257.1330 of the *Michigan Compiled Laws*, as reported on the licensees' applications:

Gross Annual Revenue	Fee	Licensed Repair Facilities	
		Number	Percentage of Total
Under \$5,000	\$ 25	2,162	8.9%
\$5,001 to \$15,000	\$ 50	1,123	4.6%
\$15,001 to \$25,000	\$ 75	1,066	4.4%
\$25,001 to \$40,000	\$100	1,132	4.7%
\$40,001 to \$60,000	\$125	1,204	5.0%
\$60,001 to \$80,000	\$150	1,209	5.0%
\$80,001 to \$100,000	\$175	960	4.0%
\$100,001 to \$120,000	\$200	896	3.7%
\$120,001 to \$140,000	\$225	794	3.3%
\$140,001 to \$160,000	\$250	670	2.8%
\$160,001 to \$180,000	\$275	611	2.5%
\$180,001 to \$200,000	\$300	679	2.8%
\$200,001 to \$220,000	\$325	451	1.9%

Table continued on next page.

\* See glossary at end of report for definition.

Gross Annual Revenue	Fee	Licensed Repair Facilities	
		Number	Percentage of Total
\$220,001 to \$240,000	\$350	494	2.0%
\$240,001 to \$260,000	\$375	506	2.1%
\$260,001 to \$280,000	\$400	313	1.3%
\$280,001 to \$300,000	\$425	307	1.3%
\$300,001 to \$320,000	\$450	370	1.5%
\$320,001 to \$340,000	\$475	248	1.0%
Over \$340,000	\$500	9,044	37.3%

The Department did not believe that it had the authority to challenge the gross revenue reported by repair facility licensees.

**RECOMMENDATIONS**

We recommend that the Department improve its automotive-related business licensing process to ensure that it licenses only qualified businesses and that it assesses all required fees.

We also recommend that the Department seek amendatory legislation granting the Department express authority to obtain records to verify gross revenue reported by repair facility licensees.

**AGENCY  
PRELIMINARY  
RESPONSE**

The Department provided us with the following response:

*The Department partially agrees with the recommendations. Related to parts a. and b., the Department agrees and the Business Licensing Section will ensure that all information required on new applications is reviewed before approval. Applications lacking mechanic information will include follow-up to ensure that a properly certified mechanic has been hired. Also, renewal applications will be re-evaluated to consider the inclusion of a checkbox indicating a change in the repair facility agreement and, if necessary, the new registration number of the repair facility associated with the dealer.*

*Related to part c., the Department disagrees that this is an audit finding as this is outside the scope of the Department's legal authority of the Act.*

# REGULATING AUTOMOTIVE-RELATED BUSINESSES AND MECHANICS

---

## BACKGROUND

The Department of State's Business Regulation Section is responsible for reviewing case documentation related to noncompliance identified during investigations and inspections conducted by another division within the Department and for determining the actions to be taken or penalties to be assessed against the licensees. The Regulation Section may communicate with the licensees to obtain additional information and further evidence to assist in properly concluding on the outcome of cases. Case outcomes generally include:

- No sanctions\* - For minor violations or infrequent violations based on licensee history. A no sanctions outcome may result in either a warning letter or no further action.
- Sanctions\* - Used to ensure compliance. A sanctions outcome may result in a fine ranging from \$250 to \$7,500, probation ranging from 12 to 48 months, suspension ranging from 0 to 30 days, or revocation.

During the audit period, the Regulation Section received and closed more than 5,300 and 6,000 cases, respectively. The Regulation Section utilized a newly implemented triage process, reducing the case backlog to approximately 380 cases as of June 30, 2015. The Regulation Section imposed sanctions on approximately 1,800 (30.1%) closed cases and imposed no sanctions on approximately 4,200 (69.9%) closed cases.

## AUDIT OBJECTIVE

To assess the effectiveness of the Department's processes for regulating automotive-related businesses and mechanics.

## CONCLUSION

Moderately effective.

## FACTORS IMPACTING CONCLUSION

- Outcomes of all sampled cases closed appeared appropriate.
- Management reviewed and approved 100% of sampled cases closed with sanctions.
- The Regulation Section properly reviewed and combined cases closed with sanctions for efficiency\*.

\* See glossary at end of report for definition.

- The Department's new triage process and other process improvements effectively reduced its case backlog by 67.9% during our audit period.
- Reportable conditions related to:
  - Lack of management oversight and documentation requirements for closing cases.
  - Untimely processing of cases. The Regulation Section did not close cases in a timely manner for 34.2% of closed cases.

## FINDING #2

---

### Oversight and documentation requirements needed.

---

The Department had not developed management oversight and documentation requirements for closing its regulatory cases to ensure appropriate, consistent, and timely decisions.

Sections 18.1483 and 18.1485 of the *Michigan Compiled Laws* require each department to establish an internal accounting and administrative control system that promotes operational efficiency and adherence to prescribed managerial policies.

We reviewed 68 cases closed by the Regulation Section during the audit period, including 41 cases closed with no sanctions (either no further action taken or a warning letter issued). We noted:

- a. The Regulation Section did not document the analyst's review and closure of 29 (70.7%) of the 41 cases. Documentation would help to ensure that an analyst reviewed the case and agreed with the triage assessment of no further action.
- b. The Regulation Section did not obtain management approval of 38 (92.7%) of the 41 cases closed with no sanctions. Of approximately 6,000 regulatory cases closed during the audit period, the Regulation Section closed approximately 4,200 (69.9%) cases with no sanctions. Management review and approval would help ensure the appropriateness of the analyst's decision. For example, we identified one case that the analyst closed with no further action, even though the case involved a Class C violation (the Regulation Section's most critical level of violation). The analyst determined that the evidence documented did not support the violation; however, management did not review or approve the case action.

---

69.9% of cases closed with no sanctions and no required management review or approval.

---

The Department had not developed guidance on minimum documentation requirements or which case outcomes required management review or approval.

## RECOMMENDATION

We recommend that the Department develop management oversight and documentation requirements for closing its regulatory cases.

## AGENCY PRELIMINARY RESPONSE

The Department provided us with the following response:

*The Department agrees with the recommendation and will continue its efforts at improving management oversight of regulatory cases and documentation requirements for case files. For the past 11 months, the Business Compliance and Regulation Division (BCRD) director, Business Regulation Section manager, Regulatory Monitoring Division director, and the Regulatory Monitoring Division managers have been receiving a monthly report that identifies any violations that are*



*added or removed by a Business Regulation Section analyst. The BCRD director and Business Regulation Section manager are both receiving and reviewing a weekly electronic closed case report that provides information on which cases have been closed, violations written for each case, date assignment history, responsible person history, and case priority, as well as the final case disposition.*

*One of the Business Regulation Section manager's Employee Development Plan objectives for fiscal year 2016 is to consolidate and further develop documentation requirements for regulatory case files. The Business Regulation Section manager will update the current 62-page License 2000 Complaint Module Quick Help Guide to further refine the documentation requirements for the Business Regulation Section analysts.*

**FINDING #3**

**Continued improvement needed to ensure regulatory cases are closed timely.**

The Department exceeded its 180-day goal for 34.2% of closed cases.

The Department needs to continue to improve the timeliness of its processing of open regulatory cases to ensure that consumers receive services from automotive-related businesses that are compliant with State laws, regulations, and rules.

The Department indicated that its current goal is to close cases within 180 days and its future goal is to close cases within 90 days.

In March 2012, the Department implemented a triage process and other process improvements that effectively reduced its case backlog by 67.9% during our audit period. However, our analysis of the Department's data for the audit period disclosed:

- a. The Department exceeded 180 days in closing 34.2% of closed cases:

Case Status	Total Number of Cases	Case Time Frame					
		0 to 90 Days		91 to 180 Days		Over 180 Days	
		Number	Percentage	Number	Percentage	Number	Percentage
Closed	6,043	2,943	48.7%	1,035	17.1%	2,065	34.2%
Open	420	201	47.9%	83	19.8%	136	32.4%
Total	6,463	3,144	48.6%	1,118	17.3%	2,201	34.1%

- b. The Department took from 192 to 832 days to close 9 (22.0%) of the 41 cases closed without sanctions.

The number of cases referred to the Regulation Section significantly increased from approximately 850 cases received during fiscal year 2011 to approximately 1,900 cases received during fiscal year 2012. Also, although the Regulation Section received approval during fiscal year 2011 to increase its staffing level from three to four analysts, it operated with only three analysts during most of the audit period.

**RECOMMENDATION**

We recommend that the Department continue improving its processes and monitoring of open regulatory cases to ensure that it closes regulatory cases timely.

**AGENCY PRELIMINARY RESPONSE**

The Department provided us with the following response:

*The Department agrees with the recommendation and will continue efforts at improving its case review processes, as well as the monitoring of open cases to ensure that it closes cases*

*in a more timely manner. The Department is refining its metrics for the Business Regulation Section Case Process Report to provide earlier detection indicators so that case closing strategies can be employed earlier in the case management process. The Department is also establishing case review meetings, that will be held with Business Regulation Section case analysts and BCRD management, to facilitate case closing strategies to ensure that cases are closed in a more timely manner.*

## **AGENCY DESCRIPTION**

---

The Department of State licenses and regulates automotive-related businesses and mechanics. The Business Licensing Section licenses dealers and repair facilities and certifies mechanics in accordance with State statute. The Business Regulation Section regulates dealers, repair facilities, and mechanics found to be in noncompliance with laws, regulations, and rules and determines the actions needed to ensure future compliance, including but not limited to fines, probation, suspension, or revocation.

The Business Licensing Section and the Business Regulation Section had 15 staff as of February 25, 2015 and expended \$1.9 million during fiscal year 2014.

## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

---

### AUDIT SCOPE

To examine the records and processes related to the Department's licensing and regulating of automotive-related businesses and mechanics. 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.

Although the Department's Regulatory Monitoring Division is responsible for receiving complaints and for conducting routine inspections and investigations of automotive-related businesses, these activities were not included within the scope of this audit.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2012 through June 30, 2015.

### METHODOLOGY

We conducted a preliminary survey of the Department's processes to formulate a basis for establishing our audit objectives and defining our audit scope and methodology. During our preliminary survey, we:

- Interviewed Department personnel to obtain an understanding of processes and roles related to the licensing and regulating of automotive-related businesses and certification and regulating of automotive-related mechanics, controls over issuance of dealer license plates, controls over mechanic examinations, and controls over certification of salvage vehicle inspectors.
- Reviewed applicable sections of the Michigan Vehicle Code and Motor Vehicle Service and Repair Act; other applicable laws, regulations, and rules; dealer and repair facility manuals and forms prepared for licensees and applicants; and Department reports (e.g., biweekly narratives, biweekly progress reports, and dashboards).
- Performed preliminary testing of license applications and renewals, purged applications, and Business Regulation Section case files related to decisions regarding licensees that received violations.

\* See glossary at end of report for definition.

- Analyzed available records to assess the reasonableness of fees charged compared with expenditures incurred.
- Conducted research of licensing requirements and fees related to automotive-related businesses and mechanics licensed in other states.

## **OBJECTIVE #1**

To assess the effectiveness of the Department's processes for licensing or certifying automotive-related businesses and mechanics.

To accomplish our objective, we:

- Reviewed applicable laws and interviewed key staff regarding the minimum requirements for licensing dealers and repair facilities and certifying mechanics.
- Sampled 27 of 1,843 new dealer applications and 25 of 13,751 licensed dealer renewal applications and reviewed them to determine that:
  - The applicants met minimum licensing requirements.
  - The Department processed applications timely.
  - The Department received the correct fees.
- Sampled 27 of 2,084 new repair facility applications and 90 of 23,391 renewal applications from 34 repair facility licensees received during the audit period and reviewed them to determine that:
  - The applicants met minimum licensing requirements.
  - The Department processed applications timely.
  - The gross revenue reported by repair facilities appeared appropriate.
- Sampled applications, purged files, and change of address requests and reviewed to determine that the Department timely completed established place of business inspections for applicable dealers. We also conducted a cost analysis to determine if performing inspections prior to ensuring complete information received was efficient.
- Compared examination questions for 7 of the 19 mechanic certification examinations to comparable Automotive Service Excellence examinations to obtain assurance that examinations covered relevant material.

We randomly and judgmentally selected our samples to ensure that the samples were representative. Therefore, we could not project the results to the overall population.

## **OBJECTIVE #2**

To assess the effectiveness of the Department's processes for regulating automotive-related businesses and mechanics.

To accomplish our objective, we:

- Obtained and analyzed data to determine:
  - How timely the Department closed cases.
  - Factors, such as the number of violations and the level of the violations, that potentially affected the time it takes to close cases.
- Compared timeliness data with Business Regulation Section reports.
- Sampled 27 of 1,512 case files with sanctions that took 180 days or longer to close to assess what factors affected the time it took to close cases. We also reviewed the files for documentation, review, appropriateness of decisions, and management oversight.
- Sampled 41 of 2,582 case files for which the Department took no sanction and reviewed for timeliness, documentation, review, appropriateness of decisions, and management oversight.

We randomly and judgmentally selected our samples to ensure that the samples were representative. Therefore, we could not project the results to the overall population.

## **CONCLUSIONS**

We base our conclusions on our audit efforts and the resulting material conditions\* and reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

\* See glossary at end of report for definition.

**AGENCY  
RESPONSES**

Our audit report contains 3 findings and 4 corresponding recommendations. The Department's preliminary response indicates that it agrees with 2 recommendations and partially agrees with 2 recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of 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 an audited agency to develop a plan to comply with the recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.



## **GLOSSARY OF ABBREVIATIONS AND TERMS**

---

BCRD	Business Compliance and Regulation Division.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
established place of business	The place occupied by a dealer continuously or at regular periods, where his or her books and records are kept and a large share of business is transacted.
gross annual revenue	Money received by a repair facility, or anticipated for a new applicant, based on performance of motor vehicle repairs, including parts and goods sold in conjunction with repairs from the last tax year.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and 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.
no sanctions	A decision by the Business Regulation Section to either issue a warning letter or take no further action when closing a case. The decision is based on staff review of the licensee file for no outstanding consumer injury issues, no money owed to the Department, no current disciplinary agreements in effect, the severity of violations, and past case history of the licensee. No further action can also occur when the licensee has been coded out of business.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist

management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

reportable condition

A matter that, in the auditor's judgment, is less severe than a material condition and 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 audit objectives; 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.

sanctions

A decision by the Business Regulation Section after review of the case or cases and the related evidence that an action taken against the licensee is needed to obtain compliance. Sanctions can include a fine, probation, suspension, or revocation.



