

Office of the Auditor General  
Follow-Up Report on Prior Audit Recommendations

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**Michigan Public Service Commission**  
Department of Licensing and Regulatory Affairs

June 2019

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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.

The auditor general may make investigations pertinent to the conduct of audits.

*Article IV, Section 53 of the Michigan Constitution*

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Office of the Auditor General

## Report Summary

### *Follow-Up Report*

*Michigan Public Service Commission  
(MPSC)*

*Department of Licensing and Regulatory  
Affairs*

**Report Number:**  
**641-0170-13F**

**Released:**  
**June 2019**

We conducted this follow-up to determine whether MPSC and the Michigan Department of State Police had taken appropriate corrective measures in response to the two material conditions noted in our March 2014 audit report.

Prior Audit Information	Follow-Up Results	
	Conclusion	Agency Preliminary Response
Finding #1 - Material condition  Comprehensive evaluation of effectiveness of MPSC operations needed.  Agency agreed.	Complied	Not applicable
Finding #2 - Material condition  Improvements needed for timely processing of motor carriers' intrastate applications.  Agency agreed.	Complied	Not applicable

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Deputy Auditor General





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

June 18, 2019

Ms. Sally Talberg, Chair  
Michigan Public Service Commission  
7109 West Saginaw Highway  
Lansing, Michigan  
and  
Ms. Orlene Hawks, Director  
Department of Licensing and Regulatory Affairs  
Ottawa Building  
Lansing, Michigan  
and  
Colonel Joseph Gasper, Director  
Michigan Department of State Police  
7150 Harris Drive  
Dimondale, Michigan

Dear Ms. Talberg, Ms. Hawks, and Colonel Gasper:

This is our follow-up report on the two material conditions (Findings #1 and #2) and three corresponding recommendations reported in the performance audit of the Michigan Public Service Commission, Department of Licensing and Regulatory Affairs. That audit report was issued and distributed in March 2014. Additional copies are available on request or at [audgen.michigan.gov](http://audgen.michigan.gov).

Effective May 17, 2015, Executive Order No. 2015-10 transferred all authority, powers, duties, etc., related to the Motor Carrier Act (Public Act 254 of 1933, as amended) from the Michigan Public Service Commission to the Michigan Department of State Police.

We appreciate the courtesy and cooperation extended to us during our follow-up.

Sincerely,

Laura J. Hirst, CPA  
Deputy Auditor General



## TABLE OF CONTENTS

### MICHIGAN PUBLIC SERVICE COMMISSION

	<u>Page</u>
Report Summary	1
Report Letter	3
Introduction, Purpose of Follow-Up, and Agency Description	6
Prior Audit Findings and Recommendations, Agency Plan to Comply, and Follow-Up Conclusions	7
Findings:	
1. Comprehensive evaluation of effectiveness of MPSC operations needed.	7
2. Improvements needed for timely processing of motor carriers' applications.	9
Follow-Up Methodology and Period	10
Glossary of Abbreviations and Terms	11

# INTRODUCTION, PURPOSE OF FOLLOW-UP, AND AGENCY DESCRIPTION

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## INTRODUCTION

This report contains the results of our follow-up of the two material conditions\* (Findings #1 and #2) and three corresponding recommendations reported in our performance audit\* of the Michigan Public Service Commission (MPSC), Department of Licensing and Regulatory Affairs (LARA), issued in March 2014.

Effective May 17, 2015, Executive Order No. 2015-10 transferred all authority, powers, duties, etc., related to the Motor Carrier\* Act (Public Act 254 of 1933, as amended) from MPSC to the Michigan Department of State Police (MSP).

## PURPOSE OF FOLLOW-UP

To determine whether MPSC and MSP had taken appropriate corrective measures to address our corresponding recommendations.

## AGENCY DESCRIPTION

MPSC's mission\* is to protect the public by ensuring safe, reliable, and accessible energy and telecommunications services at reasonable rates for Michigan's residents.

MPSC regulates the rates and services of investor-owned natural gas and electric utilities, authorizes energy infrastructure proposals, implements State law governing competition and other aspects of the energy and telecommunications industries, and monitors the safety of interstate and intrastate natural gas pipelines.

MSP's Commercial Vehicle Enforcement Division processes motor carriers' applications to operate in Michigan.

For fiscal year 2018, MPSC expended \$22.7 million for its operations and MSP reported that it expended \$0.8 million for processing motor carriers' intrastate applications.

\* See glossary at end of report for definition.



# PRIOR AUDIT FINDINGS AND RECOMMENDATIONS, AGENCY PLAN TO COMPLY, AND FOLLOW-UP CONCLUSIONS

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## FINDING #1

Audit Finding Classification: Material condition.

Summary of the March 2014 Finding:

MPSC had not established a comprehensive process to evaluate the effectiveness\* of its regulatory and oversight activities, including the development of performance standards\* and goals\* that describe the desired level of appropriate outputs\* and outcomes\*.

Recommendation Reported in March 2014:

We recommended that MPSC establish a comprehensive process to evaluate and improve the effectiveness of its operations.

## AGENCY PLAN TO COMPLY\*

On June 5, 2014, MPSC indicated that it completed a comprehensive continuous process improvement (CPI) effort in September 2013 that resulted in:

- Establishing new, objectively verifiable measures and standards to track outputs and outcomes of its divisions.
- Recording statistical results on scorecards to track and report results in a format that compares actual results with desired outcomes/outputs.
- Reporting results monthly to LARA and MPSC for review and analysis.
- Subjecting the entire evaluation system, including metrics, to constant review, evaluation, and improvement to ensure that it continues to properly reflect and measure the work of MPSC in an objective, verifiable manner.

## FOLLOW-UP CONCLUSION

Complied.

MPSC developed a comprehensive process to evaluate and improve the effectiveness of its operations. Specifically, MPSC:

- Revised its mission, vision, and goals to align with its efforts and changes to energy legislation required by Public Act 341 of 2016.
- Developed a continuous quality improvement process that includes:
  - A three-year strategic plan (calendar years 2017 through 2019) that identified MPSC's strategic

\* See glossary at end of report for definition.

priorities, objectives, and action steps. Our review of 13 (13.7%) of the 95 action steps in MPSC's strategic plan disclosed that each action step had measurable performance standards and goals, was pursued, and had documented results.

- Scorecard metrics that are linked with goals and division operations.
- Metric and division performance output indicators that are reported to the MPSC commissioners on a monthly basis.

## **FINDING #2**

Audit Finding Classification: Material condition.

Summary of the March 2014 Finding:

MPSC took an average of 125 calendar days to process motor carriers' intrastate applications compared with a federal agency taking 28 to 42 calendar days to process interstate applications. Also, MPSC had not sought amendatory legislation that would allow it to electronically process the motor carriers' applications.

Recommendations Reported in March 2014:

We recommended that MPSC timely process motor carriers' applications to operate in Michigan.

We also recommended that MPSC seek amendatory legislation to incorporate available technological practices.

## **AGENCY PLAN TO COMPLY**

On June 5, 2014, MPSC indicated that in addition to the CPI effort implemented in 2013, it:

- Had secured a legislative appropriation, had selected a vendor, and was continuing to work on implementing a new web-based information technology platform that would allow motor carriers to complete and submit applications and attachments online.
- Was continuing to seek amendatory legislation to enhance its CPI efforts.

## **FOLLOW-UP CONCLUSION**

Complied.

Our follow-up noted:

- Effective April 1, 2015, Public Act 493 of 2014 removed the requirements that an application be in writing and verified by affidavit. Also, the Act allowed for the rejection, dismissal, or denial of an application if the responsible party fails to comply with the application instructions.
- MSP implemented the Intrastate Carrier Registration System (ICARS), an online certificate of authority registration platform that helped streamline the application process.
- MSP processed the 4,495 completed (approved, denied, or withdrawn) motor carriers' applications, submitted from October 1, 2017 through March 31, 2019, in an average of 16 calendar days.

## FOLLOW-UP METHODOLOGY AND PERIOD

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### METHODOLOGY

We reviewed MPSC's corrective action plan; reviewed follow-up reports to our 2014 audit prepared by the Office of Internal Audit Services, State Budget Office; and interviewed MPSC, LARA, and MSP personnel. Specifically, for:

a. Finding #1, we:

- Reviewed descriptions of responsibilities for MPSC's eight divisions to identify the programs pursued and the performance metrics tracked.
- Reviewed MPSC's mission, goals, and strategic priorities contained in its 2017 - 2019 Strategic Plan.
- Reviewed 13 (13.7%) of the 95 action steps identified within the 2017 - 2019 Strategic Plan to determine whether the steps had measurable performance standards and goals, were pursued, and had documented results.
- Reviewed how MPSC's goals linked with its division operations, strategic priorities, and scorecard metrics.
- Reviewed MPSC's scorecard metrics for calendar year 2018 and obtained an understanding of how the metric data is accumulated.

b. Finding #2, we:

- Reviewed Public Act 493 of 2014 to verify that amendatory legislation was obtained to allow motor carriers' applications to be processed electronically.
- Obtained a download from MSP and analyzed the processing time of the 4,590 applications submitted from October 1, 2017 through March 31, 2019, including 4,495 completed applications and 95 pending applications.

### PERIOD

Our follow-up generally covered October 1, 2017 through March 31, 2019.

## GLOSSARY OF ABBREVIATIONS AND TERMS

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<b>agency plan to comply</b>	The response required by Section 18.1462 of the <i>Michigan Compiled Laws</i> and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100). The audited agency is required to develop a plan to comply with Office of the Auditor General audit recommendations and to submit the plan to the State Budget Director. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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.
<b>CPI</b>	continuous process improvement.
<b>effectiveness</b>	Success in achieving mission and goals.
<b>goal</b>	An intended outcome of a program or an entity to accomplish its mission.
<b>LARA</b>	Department of Licensing and Regulatory Affairs.
<b>material condition</b>	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. Our assessment of materiality is in relation to the respective audit objective.
<b>mission</b>	The main purpose of a program or an entity or the reason that the program or the entity was established.
<b>motor carrier</b>	A carrier of passengers or property in a commercial motor vehicle, which includes a person who owns or leases a commercial motor vehicle or who assigns employees to operate the vehicle. Motor carrier includes a motor carrier's agents, officers, and representatives as well as employees responsible for hiring, supervising, training, assigning, or dispatching drivers and employees concerned with the installation, inspection, and maintenance of motor vehicle equipment and accessories.
<b>MPSC</b>	Michigan Public Service Commission.
<b>MSP</b>	Michigan Department of State Police.

<b>outcome</b>	An actual impact of a program or an entity.
<b>output</b>	A product or a service produced by a program or an entity.
<b>performance audit</b>	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.
<b>performance standard</b>	A desired level of output or outcome.





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