

Office of the Auditor General  
Performance Audit Report

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**Business Compliance and Regulation Division**  
Department of State

December 2022

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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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# OAG

Office of the Auditor General

## Report Summary

*Performance Audit  
Business Compliance and Regulation  
Division (BCRD)  
Department of State*

**Report Number:**  
**231-0270-21**

**Released:**  
**December 2022**

BCRD's mission is to ensure licensee compliance with statutory requirements, deter fraudulent activity, and protect consumers through education, training, and appropriate administrative actions. BCRD licenses and regulates automotive-related businesses and mechanics including approximately 6,300 licensed vehicle dealers, 8,100 licensed repair facilities, and 30,400 certified mechanics. In fiscal year 2021, BCRD expended \$3.8 million. As of September 30, 2021, BCRD had 31 full-time employees.

Audit Objective			Conclusion
Objective 1: To assess the effectiveness of BCRD's efforts to license or certify selected automotive-related businesses and mechanics.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable.		
Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Michigan's dealer license plate fees are lowest among six Midwestern states and have not been revised since 2002 ( <a href="#">Observation 1</a> ).	Not applicable for observations.		

Audit Objective			Conclusion
Objective 2: To assess the effectiveness of BCRD's efforts to regulate automotive-related businesses and mechanics.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
BCRD took over 180 days to close 46%, 44%, and 35% of cases for vehicle dealers, repair facilities, and mechanics, respectively. On average, cases with high or immediate action priority levels took BCRD 153 and 117 days to close, respectively ( <a href="#">Finding 1</a> ).		X	Agrees

<b>Findings Related to This Audit Objective (Continued)</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
BCRD periodically used alternative penalty agreements (APAs), including additional training, in lieu of administrative hearings to foster compliance with the Michigan Vehicle Code. However, BCRD did not have procedures to ensure licensees completed training required in the APAs ( <a href="#">Finding 2</a> ).		X	Agrees

<b>Audit Objective</b>			<b>Conclusion</b>
Objective 3: To assess the effectiveness of BCRD's oversight of the driver education and skills testing programs.			Moderately effective
<b>Findings Related to This Audit Objective</b>	<b>Material Condition</b>	<b>Reportable Condition</b>	<b>Agency Preliminary Response</b>
BCRD could not ensure driver education instructor preparation programs and instructors utilized a Department-approved curriculum. In addition, 47%, 90%, and 78% of driver skills testing businesses, testing sites, and certified examiners, respectively, were not inspected or observed during our audit period ( <a href="#">Finding 3</a> ).		X	Agrees

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# OAG

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

December 22, 2022

The Honorable Jocelyn Benson  
Secretary of State  
Richard H. Austin Building  
Lansing, Michigan

Dear Secretary Benson:

This is our performance audit report on the Business Compliance and Regulation Division, 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 to submit it to the State Budget Office upon completion of an audit. 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.

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

Sincerely,

Doug Ringler  
Auditor General



## TABLE OF CONTENTS

### **BUSINESS COMPLIANCE AND REGULATION DIVISION**

	<u>Page</u>
Report Summary	1
Report Letter	3
Audit Objectives, Conclusions, Findings, and Observations	
Licensing or Certifying Selected Automotive-Related Businesses and Mechanics	8
Observations:	
1. Michigan's dealer license plate fees are lowest among six Midwestern states.	9
Regulating Automotive-Related Businesses and Mechanics	10
Findings:	
1. Improved regulatory case review processes needed.	12
2. Improved monitoring needed to ensure timely completion of required training.	14
Overseeing Driver Education and Skills Testing Programs	15
Findings:	
3. Enhanced monitoring of driver education programs and driver skills testing businesses needed.	17
Supplemental Information	
Case Review Timeliness by Action Taken	20
Agency Description	21
Audit Scope, Methodology, and Other Information	22
Glossary of Abbreviations and Terms	27





# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# LICENSING OR CERTIFYING SELECTED AUTOMOTIVE-RELATED BUSINESSES AND MECHANICS

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## BACKGROUND

The Business Compliance and Regulation Division (BCRD) is responsible for annually licensing automotive-related businesses, including approximately 6,300 vehicle dealers and 8,100 repair facilities. Vehicle dealers include, but are not limited to, new and used vehicle dealers; used vehicle parts dealers; and salvage vehicle agents. Repair facilities offer services, such as engine, transmission, brake, and electrical system repairs, performed by their mechanics.

BCRD annually certifies approximately 30,400 mechanics who meet minimum competency standards through examinations administered by BCRD or a national automotive group.

## AUDIT OBJECTIVE

To assess the effectiveness\* of BCRD's efforts to license or certify selected automotive-related businesses and mechanics.

## CONCLUSION

Effective.

## FACTORS IMPACTING CONCLUSION

- BCRD appropriately performed prelicense inspections of new, used, and wholesale vehicle dealers for 100% of license applicants reviewed.
- BCRD timely issued new and renewal vehicle dealer and repair facility licenses and mechanic certifications for applicants meeting requirements and remitting the appropriate fees for 97% of licenses and certifications reviewed.
- BCRD determined mechanic applicants were properly certified in major categories of repair.
- Michigan's dealer license plate original issuance fee is the lowest among six Midwestern states (Observation\* 1).

\* See glossary at end of report for definition.

## OBSERVATION 1

**Michigan's dealer license plate fees are lowest among six Midwestern states.**

The Michigan Vehicle Code requires any vehicle used on Michigan's roadways to be registered and display a valid license plate with a current registration tab. The yearly registration fee for a vehicle with the manufacturer's suggested retail price of \$30,000 totals approximately \$186 per year. Also, State law permits dealers owning a vehicle to utilize a special license plate issued by BCRD that does not require a vehicle registration when transporting a vehicle from one location to another on a street or highway.

However, a significant difference exists in the costs of these two types of plates. The original issuance fee and annual renewal fee of a dealer license plate is \$10, and the fee structure has not been revised since July 2002.

We compared Michigan's fee structure for original issuance and for additional or replacement dealer license plates with five other Midwestern states. Although the states utilized a different fee structure, Michigan's fee was the lowest dealer license plate fee. We calculated each state's fee per license plate:

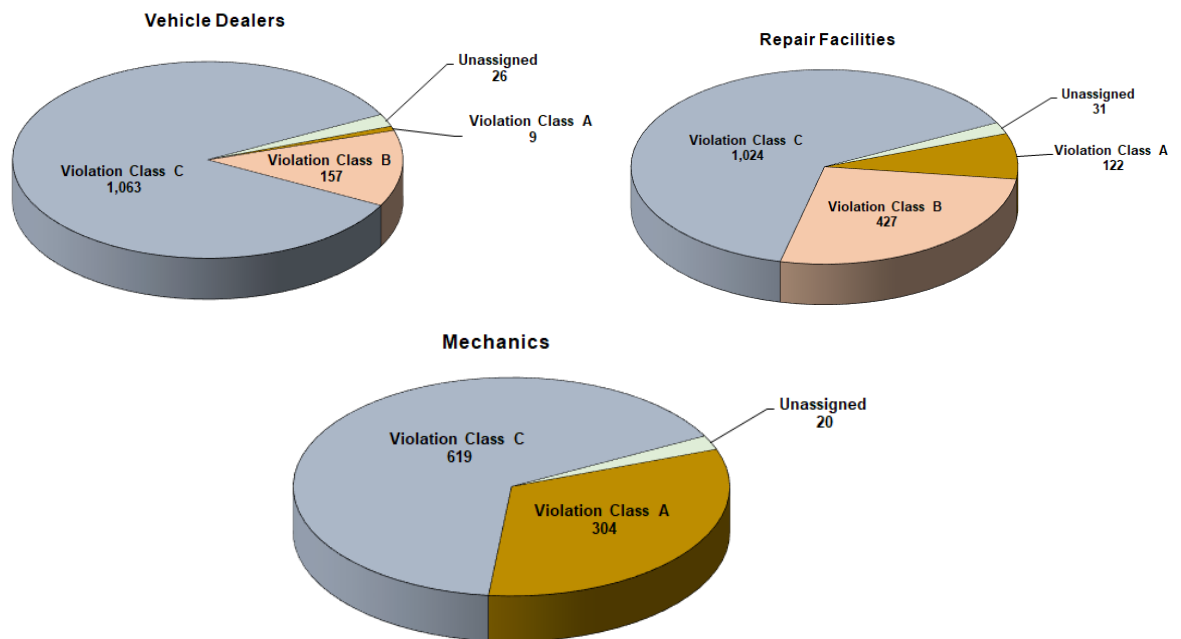
State	Original Issuance Fee	Additional or Replacement Fee
Michigan	\$10.00	\$10.00
Illinois	\$45.00	\$13.00
Indiana	\$20.00	\$15.00
Minnesota	\$75.00	\$40.00
Ohio	\$50.25	\$10.25
Wisconsin	\$37.50	\$ 5.00

BCRD issued approximately 53,700 dealer license plates and renewal registration tabs in program year 2020, which expired in February 2021. If Michigan were to increase the original per license plate fee to the average amount (\$45.55) from the other five states, it would generate \$1.9 million more per year to fund BCRD operations.

# REGULATING AUTOMOTIVE-RELATED BUSINESSES AND MECHANICS

## BACKGROUND

BCRD is responsible for analyzing violations issued by the Office of Investigative Services' (OIS's) Regulatory Monitoring Division (RMD) and determining the appropriate administrative actions to impose against vehicle dealers, repair facilities, and mechanics for noncompliance with the Michigan Vehicle Code and the Motor Vehicle Repair and Service Act. RMD assigns Class A, B, or C to each violation, with Class C being the most severe, and forwards the violation to BCRD's Business Regulation Section (BRS). From February 19, 2019 through May 31, 2021, BRS imposed administrative actions against 1,255 vehicle dealers, 1,604 repair facilities, and 943 mechanics:



BCRD analysts review each case in its entirety, document the rationale in the Customer and Automotive Records System (CARS), and submit their recommendation for management approval. BCRD's administrative actions include warning letters, alternative penalty agreements (APAs), administrative hearings, immediate action posts, license probations or revocations, and financial penalties in accordance with BCRD's compliance matrix sanctions tables. From February 19, 2019 through May 31, 2021, BCRD received 3,390 and closed 3,802 regulatory cases.

## AUDIT OBJECTIVE

To assess the effectiveness of BCRD's efforts to regulate automotive-related businesses and mechanics.

**CONCLUSION**

Moderately effective.

**FACTORS  
IMPACTING  
CONCLUSION**

- BCRD established written procedures for regulatory case reviews of vehicle dealers, repair facilities, and mechanics.
- BCRD's administrative actions were consistent with its compliance matrix sanctions table or an explanation was documented when the administrative action differed from the sanctions table in 95% of the closed regulatory cases reviewed.
- BCRD included approvals and appropriate documentation in 100% of closed regulatory cases reviewed.
- Reportable conditions\* related to improving regulatory case review processes and improving monitoring of required training (Findings 1 and 2).

\* See glossary at end of report for definition.

## FINDING 1

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### Improved regulatory case review processes needed.

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BCRD should improve its regulatory case review processes for vehicle dealers, repair facilities, and mechanics to help ensure consumers receive services from automotive-related businesses that are compliant with State laws, regulations, and rules.

The State of Michigan Financial Management Guide (FMG) (Part VII, Chapter 1, Section 200) requires management to design control activities to achieve objectives and respond to risks. Key control activities help ensure responses to risks are carried out in a proper and timely manner.

BRS analyzes violations issued by OIS's RMD and determines penalties for vehicle dealers, repair facilities, and mechanics as defined in the *Michigan Compiled Laws*. We reviewed BCRD's operations and identified the following concerns:

- a. BCRD's goal throughout our audit period was to initiate a case review within 150 days of receipt from RMD but had no goal to close cases within a certain number of days.

In Finding 3 of our performance audit\* report on Licensing and Regulating of Automotive-Related Businesses and Mechanics, Department of State (231-0701-15), issued in December 2015, the Department indicated a goal to close cases within 180 days and its future goal to close cases within 90 days (a reduction of 90 days). The goal to initiate a case within 150 days does not include the additional days to complete its review and close the case, which could exceed its previous goal of closing cases within 180 days. BCRD informed us the change was made under previous management and current management is unaware of the rationale for the change.

- b. BCRD did not correctly document in CARS the date it initiated a case after referral from RMD and, as a result, could not measure whether a case was initiated in a timely manner. In absence of the initiated date field, we calculated the number of days to close a case utilizing the date referred from RMD. We determined BCRD exceeded 180 days in closing 46%, 44%, and 35% of cases for vehicle dealers, repair facilities, and mechanics, respectively (see supplemental information).
- c. BCRD had not fully developed case processing time lines based on assigned priority levels. Upon referral, BCRD assigns each case a priority level of immediate action, high, or standard. We noted violations and case processing times such as:
  - A vehicle dealer exceeding authority granted by its license classification resulted in an immediate action priority case which took 45 days to close.

\* See glossary at end of report for definition.

- A repair facility fraudulently falsifying invoices resulted in a high priority case which took 189 days to close.
- A mechanic performing repair services without being certified in those types of repairs resulted in a standard priority case which took 437 days to close.

We also analyzed the priority levels for 3,802 cases closed during our audit period and noted:

Priority Level	Number of Days to Close a Case		
	Minimum	Average	Maximum
Standard	Less than 1	200	1,784
High	1	153	911
Immediate action	1	117	609

BCRD indicated it did not have procedures in place to identify time frames to close cases once initiated. Setting a goal to close a case would help BCRD in tracking and processing case reviews and limit the period automotive-related businesses and mechanics could operate while not compliant with State laws and administrative rules. These time frames would take into consideration the level of work needed prior to case closure.

**RECOMMENDATION**

We recommend that BCRD improve its regulatory case review processes for vehicle dealers, repair facilities, and mechanics to help ensure consumers receive services from automotive-related businesses that are compliant with State laws, regulations, and rules.

**AGENCY  
PRELIMINARY  
RESPONSE**

The Department of State provided us with the following response:

*BCRD agrees that improvements should be made to regulatory case review processes for vehicle dealers, repair facilities, and mechanics. BCRD updated its internal procedures to identify time frames to initiate cases, as well as to close cases once the cases were initiated. The OIS strategic plan has also been updated to reflect these time frames. The BCRD Division Director meets monthly with the BRS Manager to monitor the status of the case reviews and training completion requirements to ensure compliance with these documented time frames.*

## FINDING 2

### Improved monitoring needed to ensure timely completion of required training.

BCRD should improve its monitoring of APAs to ensure licensees complete required training in a timely manner. Training is included in APAs to help ensure noncompliant licensees understand the requirements of the Michigan Vehicle Code.

OIS established and maintained a list of vehicle dealer and repair facility violations as defined in the Michigan Vehicle Code. RMD classifies each violation as Class A, B, or C based on its impact to the consumers, with Class A being the least severe and Class C being the most severe. Sections 257.250a and 257.1322(3) of the *Michigan Compiled Laws* provide for BCRD to enter into written APAs with licensees for Class C violations in lieu of an administrative hearing. All APAs outline specific conditions including, but not limited to, probation periods, suspension periods, financial penalty payments, and training provisions. Examples of Class C violations resulting in an APA include:

Type	Violation Description
Vehicle dealer	Possession of a stolen vehicle.
Vehicle dealer	Failure to forward titles to the Secretary of State.
Vehicle dealer	Failure to obtain a dealer license or dealing in vehicles without a valid license.
Repair facility	Charged for repairs not performed.
Repair facility	Represented repairs are necessary when in fact they are not.
Repair facility	Misrepresented a part as new or of a certain manufacture.

We reviewed 40 regulatory cases with at least one Class C violation closed between February 19, 2019 and May 31, 2021. We noted in 3 (38%) of 8 cases closed with an APA, BCRD did not ensure licensees completed training within the required 180 days. In 2 cases, licensees did not attend the training, and in the remaining case, the licensee's employees did not complete the training until 198 days after the required completion date.

BCRD stated it did not have procedures in place to monitor licensees' completion of APA required training.

## RECOMMENDATION

We recommend that BCRD improve its monitoring of APAs to ensure licensees complete required training in a timely manner.

## AGENCY PRELIMINARY RESPONSE

The Department of State provided us with the following response:

*BCRD agrees that improvements should be made to the monitoring of APAs to ensure licensees complete required training timely. BCRD updated the case management system to track when training has been completed. BCRD created a procedure to monitor licensees' completion of APA required training.*



# OVERSEEING DRIVER EDUCATION AND SKILLS TESTING PROGRAMS

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## BACKGROUND

BCRD is responsible for administering programs for driver education, driver skills testing, and driver education instructor preparation. The Driver Education Provider and Instructor Act (Public Act 384 of 2006, as amended) provides for the certification of driver education providers\* and instructors\*. Individuals seeking instructor certification to teach teen or adult driver education must complete a BCRD-approved driver education instructor preparation program\* (IPP). BCRD also:

- Approves original and renewal applications and issues driver education provider and instructor certificates.
- Investigates complaints.
- Imposes sanctions.

Driver education providers must use a BCRD-prescribed curriculum guide for teen driver education programs unless BCRD specifically approves the use of an alternative curriculum. As of June 8, 2021, there were 255 active automobile driver education providers and approximately 1,600 driver education instructors.

Section 257.309(4) of the *Michigan Compiled Laws* authorizes BCRD to approve third-party driver testing organizations\* to conduct testing on behalf of the Department through a written agreement prescribing the requirements and standards and to approve examiners\* for employment upon completion of a training course. As of June 30, 2021, 112 active driver skills testing businesses employed 310 examiners.

## AUDIT OBJECTIVE

To assess the effectiveness of BCRD's oversight of the driver education and skills testing programs.

## CONCLUSION

Moderately effective.

## FACTORS IMPACTING CONCLUSION

- BCRD obtained required calendar year 2019 and 2020 year-end reports from 300 and 282 driver education providers, respectively.
- BCRD correctly determined new driver education providers and new and renewal driver education instructor applicants met State requirements.
- BCRD correctly determined new examiners and new driver skills testing business owners and designated representatives met State requirements.

\* See glossary at end of report for definition.

- BCRD investigated complaints appropriately and in a timely manner.
- Reportable condition related to enhanced monitoring of driver education programs and driver skills testing businesses needed (Finding 3).

## FINDING 3

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### **Enhanced monitoring of driver education programs and driver skills testing businesses needed.**

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BCRD should improve its oversight of the driver education and skills testing programs and develop necessary policies and procedures to ensure third-party contractors are appropriately administering these programs.

We reviewed BCRD's processes for evaluating third parties responsible for conducting driver education IPP courses, for instructing teen driver education courses, and for assessing student driving skills. Our review of these processes noted:

- a. BCRD had not reevaluated all five driver education IPPs subject to review every three years, as required by Section 256.643(11) of the *Michigan Compiled Laws*. These IPPs had not been reviewed since 2012. Periodic review would help ensure the IPPs utilize the Department-approved curriculum to prepare individuals in classroom driver education instruction. After individuals complete these courses, including student teaching, they can submit an application to the Department for a driver education instructor certificate which qualifies them to teach Michigan's driver education courses.
- b. BCRD had not implemented a monitoring process of third-party certified driver education providers. The FMG (Part VII, Chapter 1, Section 200) states management should implement control activities through policies and procedures. Provider monitoring of instructors, such as through classroom observations, would help ensure instructors are following the Department-approved curriculum covering topics including pre-driving checks, traffic laws, and driving conditions.
- c. BCRD did not complete inspections for 47% and 90% of driver skills testing businesses and testing sites, respectively, and did not complete observations for 78% of certified examiners from October 1, 2018 through May 31, 2021. The Department is responsible to monitor driver skills testing businesses and examiners to ensure compliance with statutory and contractual requirements. Performance monitoring is a key function of proper contract administration to ensure the third party is performing all duties in accordance with the terms of the contract and to identify and address any developing problems or issues.

The following table summarizes BCRD's monitoring activities based on CARS data and inspection and observation reports maintained in the Department's shared drive:

Monitoring Activity	Skills Testing Third Party	Examples of Procedures Performed	Active Number of Businesses or Examiners Reported in CARS	Number (Percent) of Inspections or Observations Not Completed
Business inspection*	Businesses	Owner and examiner medical records and criminal history reports are current and complete; insurance or surety bonds are up to date; and examiner applicant logs are maintained.	97 as of June 30, 2021	46 (47%)
Covert* and overt* observation	Examiners	Examiners administered all required tests in the proper sequence; examiners maintained visual contact of moving vehicle; and examiners did not use their personal cell phone while conducting driver skills test.	252 as of June 30, 2021	197 (78%)
Testing site inspection*	Businesses	Testing site remains free of traffic, parked vehicles, pedestrians, or other hazards and testing site and routes meet Department standards.	201 as of September 3, 2021	180 (90%)

- d. BCRD did not have a process to follow up violations noted during its observations of driver skills testing and did not have the authority to issue monetary penalties. For example, in a covert driver skills testing observation report we reviewed, BCRD required immediate corrective action because of violations by the driver skills testing examiner, such as failure to maintain visual contact of moving vehicle during the parking portion of the driver skills test and failure to conduct all tests and in the proper sequences.

BCRD indicated it prioritized its monitoring activities as follows: (1) required federal commercial driver's license examiner inspections, (2) business inspections, and (3) investigations related to consumer and examiner complaints but had not developed monitoring policies and procedures for its third-party contractors. In addition, in regard to part c, because of the COVID-19 pandemic, Executive Order No. 2020-21, issued on March 24, 2020, suspended all driver skills testing. Driver skills testing resumed on June 1, 2020 using safety protocols outlined in Executive Order No. 2020-110.

\* See glossary at end of report for definition.

**RECOMMENDATION**

We recommend that BCRD improve its oversight of the driver education and skills testing programs and develop necessary policies and procedures to ensure third-party contractors are appropriately administering these programs.

**AGENCY  
PRELIMINARY  
RESPONSE**

The Department of State provided us with the following response:

*BCRD agrees that improvements should be made to oversight of the driver education and skills testing programs and that necessary policies and procedures should be developed and implemented. BCRD completed all 5 instructor preparation program (IPP) reviews. BCRD will implement a monitoring process of third party certified driver education providers. BCRD will reevaluate their current risk based approach that focuses on commercial driver's license testing businesses oversight so that they can expand oversight to all testing businesses. BCRD modified the notice of non-compliance form to require a response from the testing business within a specified time frame to ensure that corrective action is being taken.*

# SUPPLEMENTAL INFORMATION

UNAUDITED

## BUSINESS COMPLIANCE AND REGULATION DIVISION

Department of State

Case Review Timeliness by Action Taken

February 19, 2019 Through May 31, 2021

BCRD Action Taken	Vehicle Dealers						Number of Cases	Average Number of Days to Close Cases
	Case Time Frame							
	0 to 90 Days		91 to 180 Days		Over 180 Days			
	Number	Percent	Number	Percent	Number	Percent		
APA	55	27%	41	20%	105	52%	201	219
Closure stage approval	188	44%	76	18%	166	39%	430	174
Hearing	0	0%	1	50%	1	50%	2	326
Immediate action post	34	45%	17	22%	25	33%	76	180
Warning letter	139	25%	121	22%	286	52%	546	203
Total number of cases	<u>416</u>	33%	<u>256</u>	20%	<u>583</u>	46%	<u>1,255</u>	194

Number of Days to Finalize Administrative Action

Minimum: 1

Average: 194

Maximum: 1,093

BCRD Action Taken	Repair Facilities						Number of Cases	Average Number of Days to Close Cases
	Case Time Frame							
	0 to 90 Days		91 to 180 Days		Over 180 Days			
	Number	Percent	Number	Percent	Number	Percent		
APA	34	20%	35	20%	102	60%	171	272
Closure stage approval	167	35%	82	17%	224	47%	473	203
Hearing	0	0%	0	0%	2	100%	2	827
Immediate action post	11	50%	5	23%	6	27%	22	166
Warning letter	298	32%	273	29%	365	39%	936	179
Total number of cases	<u>510</u>	32%	<u>395</u>	25%	<u>699</u>	44%	<u>1,604</u>	197

Number of Days to Finalize Administrative Action

Minimum: Less than 1

Average: 197

Maximum: 1,135

BCRD Action Taken	Mechanics						Number of Cases	Average Number of Days to Close Cases
	Case Time Frame							
	0 to 90 Days		91 to 180 Days		Over 180 Days			
	Number	Percent	Number	Percent	Number	Percent		
APA	9	25%	12	33%	15	42%	36	221
Closure stage approval	46	26%	39	22%	93	52%	178	233
Hearing	0	0%	0	0%	0	0%	0	N/A
Immediate action post	0	0%	0	0%	0	0%	0	N/A
Warning letter	301	41%	204	28%	224	31%	729	155
Total number of cases	<u>356</u>	38%	<u>255</u>	27%	<u>332</u>	35%	<u>943</u>	172

Number of Days to Finalize Administrative Action

Minimum: 1

Average: 173

Maximum: 1,784

N/A = Not applicable.

Source: The OAG prepared this exhibit using CARS data.

## AGENCY DESCRIPTION

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BCRD's mission\* is to ensure licensee compliance with statutory requirements, deter fraudulent activity, and protect consumers through education, training, and appropriate administrative actions. BCRD administers sections of the Michigan Vehicle Code and the Motor Vehicle Service and Repair Act. BCRD is composed of 3 sections:

1. Business Licensing Section (BLS)  
BLS is responsible for the issuance and maintenance of new and used automotive dealer licenses, automotive repair facility registrations, mechanic certifications and trainee permits, and salvage vehicle agent licenses.
2. Business Regulation Section (BRS)  
BRS analyzes violations issued by RMD and determines appropriate administrative actions against vehicle dealers, repair facilities, and mechanics. BRS also provides training to vehicle dealers and repair facilities.
3. Driver Education and Testing Section (DETS)  
DETS is responsible for administering 3 Departmental programs: driver education, driver skills testing, and driver education instructor preparation.

DETS is composed of 2 units:

- a. Driver Education Unit (DEU)  
DEU administers certification of driver education providers and instructors; addresses customer complaints; monitors driver education providers' and instructors' compliance with the Driver Education Provider and Instructor Act requirements; and approves curriculum used in teen driver education programs.
- b. Driver Testing Unit (DTU)  
DTU administers contracts with businesses to conduct driver's road testing and approves test examiners. DTU also monitors and performs inspections of driver skills testing businesses and observations of examiners. In addition, DTU assesses driver skills testing programs availability in five regions throughout Michigan.

In fiscal year 2021, BCRD expended \$3.8 million. As of September 30, 2021, BCRD had 31 full-time employees.

\* See glossary at end of report for definition.

## **AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION**

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### **AUDIT SCOPE**

To examine the records and processes related to selected operational activities within BCRD. 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.

As part of the audit, we considered the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined all components were significant.

### **PERIOD**

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2018 through May 31, 2021.

### **METHODOLOGY**

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

- Interviewed BCRD management and personnel regarding their processes and responsibilities.
- Reviewed applicable State laws, rules, regulations, procedures, and federal program reviews.
- Analyzed BCRD's expenditures incurred from October 1, 2018 through May 31, 2021.
- Performed a cursory review of applications from vehicle dealers, repair facilities, and mechanics.
- Performed limited preliminary testing of driver education provider and instructor applications and driver skills testing businesses and examiners.

### **OBJECTIVE 1**

To assess the effectiveness of BCRD's efforts to license or certify selected automotive-related businesses and mechanics.

To accomplish this objective, we:

- Randomly and judgmentally sampled 40 of the 282 new vehicle dealer applications and 40 of the 2,868 renewal



vehicle dealer applications from February 19, 2019 through May 31, 2021 to determine whether:

- BCRD processed applications in a timely manner.
  - BCRD performed prelicense inspections of new, used, and wholesale vehicle dealer license applicants.
  - BCRD properly approved applications and timely issued vehicle dealer licenses to applicants who met requirements and remitted the appropriate fees.
- Randomly sampled 25 of the 686 original repair facility applications and 5 of the 9,929 renewal repair facility applications from February 19, 2019 through May 31, 2021 to determine whether:
    - BCRD processed applications in a timely manner.
    - BCRD properly approved and issued repair facility licenses to applicants who met minimum licensing requirements and remitted the appropriate fees.
  - Randomly sampled 10 of the 1,760 original and 5 of the 22,741 renewal automotive certified mechanics' applications from February 19, 2019 through May 31, 2021 to determine whether:
    - BCRD processed applications in a timely manner.
    - BCRD properly approved and certified applicants who met requirements and remitted the appropriate fees.
    - BCRD determined applicants were properly certified in repair categories of major automotive repair services.
  - Compared Michigan dealer license plate fees with those assessed in neighboring states.

Our random samples were selected to eliminate bias and enable us to project the results to the overall population of applicants. We selected other samples judgmentally and, therefore, could not project those results to the respective populations.

## **OBJECTIVE 2**

To assess the effectiveness of BCRD's efforts to regulate automotive-related businesses and mechanics.

To accomplish this objective, we:

- Reviewed BCRD's written procedures for regulatory case reviews of vehicle dealers, repair facilities, and mechanics.
- Completed various summaries of CARS data for 3,802 regulatory cases closed from February 19, 2019 through May 31, 2021 to determine the number and percentage of days to close regulatory case reviews.
- Summarized CARS data for 153 open regulatory cases as of May 31, 2021 to determine the number and percentage of days elapsed since BCRD received the cases from RMD for the purpose of determining appropriate administrative actions.
- Randomly and judgmentally sampled 40 of 1,971 regulatory cases with 1 or more Class C violations closed from February 19, 2019 through May 31, 2021 to determine whether:
  - Administrative actions were consistent with their compliance matrix sanctions table or an explanation was documented when the administrative action differed.
  - Closed regulatory cases were appropriately approved and documented.
  - Regulatory cases were timely completed and closed.
  - Businesses completed APA required training.
- Inquired of BCRD management regarding its goal for processing and closing regulatory case reviews.
- Reviewed regulatory case data in CARS to determine whether CARS included all necessary fields to measure BCRD's goal to open each regulatory case review within 150 days.
- Analyzed the number of days to close a case based on assigned priority levels.

Our random sample was selected to eliminate bias and enable us to project the results to the overall population. We selected the other sample judgmentally based on the severity of violations and, therefore, could not project the results to the entire population.

### **OBJECTIVE 3**

To assess the effectiveness of BCRD's oversight of the driver education and skills testing programs.

To accomplish this objective, we:

- Verified 300 and 282 driver education providers submitted required calendar year 2019 and 2020 year-end reports in CARS, respectively.
- Randomly sampled 7 of the 34 complaints received from October 1, 2018 through May 31, 2021 to determine whether DETS appropriately investigated and timely responded to the complainants. Our random sample was selected to eliminate bias and enable us to project the results to the entire population.
- Reviewed BCRD's monitoring of driver education providers and driver skills testing businesses and examiners and performed the following procedures:
  - Determined whether BCRD performed evaluations of the five driver education IPPs from October 1, 2018 through May 31, 2021.
  - Determined whether BCRD had implemented a monitoring process of third-party certified driver education providers.
  - Reviewed 97 active driver skills testing businesses and 252 active examiners reported in CARS as of June 30, 2021 and 201 active driver testing sites reported in CARS as of September 3, 2021 to determine whether BCRD maintained electronic reports of driver skills testing business inspections, covert and overt observations, and driver testing sites on BCRD's network drive from October 1, 2018 through May 31, 2021.
  - Reviewed a judgmental sample of 21 of 503 BCRD inspections and observations from October 1, 2018 through May 31, 2021 to determine whether BCRD identified violations and performed follow-up procedures for violations requiring immediate attention. We judgmentally selected our sample items to ensure representativeness by monitoring activity and, therefore, could not project the results to the entire population.

## CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions\* or 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 3 corresponding recommendations. The Department of State's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response following each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our 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 to submit it to the State Budget Office upon completion of an audit. 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.

**PRIOR AUDIT FOLLOW-UP**

Following is the status of the reported findings from our December 2015 performance audit of the Licensing and Regulating of Automotive-Related Businesses and Mechanics, Department of State (231-0701-15):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1a	Inappropriately Issued Licenses	Complied	Not applicable
1b	Inappropriately Renewed Licenses	Complied	Not applicable
1c	License Fees From Repair Facilities	Not in scope of this audit.	
2	Regulatory Oversight and Documentation	Complied	Not applicable
3	Processing of Regulatory Cases	Rewritten*	1

**SUPPLEMENTAL INFORMATION**

Our audit report includes supplemental information presenting case review timeliness by action taken. Our audit was not directed toward expressing a conclusion on this information.

\* See glossary at end of report for definition.

## **GLOSSARY OF ABBREVIATIONS AND TERMS**

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<b>APA</b>	alternative penalty agreement.
<b>BCRD</b>	Business Compliance and Regulation Division.
<b>BLS</b>	Business Licensing Section.
<b>BRS</b>	Business Regulation Section.
<b>business inspection</b>	An on-site inspection of a third-party driver testing organization's processes and documentation to ensure examiners are qualified and recordkeeping meets statutory and agreement requirements. Examples include examiners' medical and criminal history records, insurance, testing organization and examiner complaints, inventory control, and automobile test sites.
<b>CARS</b>	Customer and Automotive Records System.
<b>covert observation</b>	An observation in which the examiner is not aware of the analyst's presence. These activities include, but are not limited to, vehicle inspection, examiner positioning, and all test components completed; score sheet review; and correct fee receipt.
<b>DETS</b>	Driver Education and Testing Section.
<b>DEU</b>	Driver Education Unit.
<b>driver education instructor preparation program</b>	A program of driver education instructor preparation courses offered by a university or by a person approved by the Secretary of State.
<b>driver education provider</b>	A person who maintains or obtains the facilities and certified instructors to give instruction in the driving of a motor vehicle or maintains or obtains the facilities and certified instructors to prepare an applicant for an examination given by the Secretary of State for a driver's license.
<b>driver testing organization</b>	The third-party public or private business or agency authorized by the Department to administer driver skills testing.
<b>DTU</b>	Driver Testing Unit.

<b>effectiveness</b>	Success in achieving mission and goals.
<b>examiner</b>	An individual employed or under the direction or control of the third-party driver testing organization to administer driver skills tests.
<b>FMG</b>	State of Michigan Financial Management Guide.
<b>instructor</b>	A person whom the Department certifies has met the State law Driver Education Provider and Instructor Act, Section 256.623 of the <i>Michigan Compiled Laws</i> .
<b>IPP</b>	instructor preparation program.
<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 the program or the entity was established.
<b>observation</b>	A commentary highlighting certain details or events that may be of interest to users of the report. An observation may not include all of the attributes (condition, effect, criteria, cause, and recommendation) presented in an audit finding.
<b>OIS</b>	Office of Investigative Services.
<b>overt observation</b>	An observation in which the examiner is aware of the analyst's presence. Examples include, but are not limited to, vehicle inspection, examiner positioning, and all test components completed; score sheet review; and correct fee receipt.
<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.

**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: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.

**rewritten**

The recurrence of similar conditions reported in a prior audit in combination with current conditions that warrant the prior audit recommendation to be revised for the circumstances.

**RMD**

Regulatory Monitoring Division.

**testing site inspection**

An onsite inspection of an automobile or motorcycle road skills tests to determine whether the condition of the location, course setup, and course measurements meet Department standards.













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