



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

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– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
 591-0150-09

Bureau of Transportation Planning

Michigan Department of Transportation

Released:
 August 2010

The Bureau of Transportation Planning (BTP) is responsible for developing and implementing a comprehensive transportation planning process which results in transportation investments that are consistent with financial, social, economic, and environmental policies of the State Transportation Commission.

Audit Objective:

To assess the effectiveness of BTP's process for ensuring the accuracy and completeness of the data collected for use in funding distributions and reporting.

Audit Conclusion:

We concluded that BTP's process for ensuring the accuracy and completeness of the data collected for use in funding distributions and reporting was effective. Our report does not include any reportable conditions related to this audit objective.

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Audit Objective:

To assess the effectiveness of BTP's efforts to include selected highway projects on State and federal transportation plans in accordance with State and federal requirements.

Audit Conclusion:

We concluded that BTP's efforts to include selected highway projects on State and federal transportation plans in accordance with State and federal requirements were

effective. We noted one reportable condition (Finding 1).

Reportable Condition:

BTP did not document the Project Screening Committee's justification for accepting road and bridge projects that did not comply with eligibility criteria for inclusion in the Michigan Department of Transportation's (MDOT's) Five-Year Transportation Program (Finding 1).

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Agency Responses:

Our audit report contains 1 finding and 1 corresponding recommendation. MDOT's preliminary response indicated that it agreed with the recommendation.

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August 27, 2010

Mr. Ted B. Wahby, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Mr. Steudle:

This is our report on the performance audit of the Bureau of Transportation Planning, Michigan Department of Transportation.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, finding, recommendation, and agency preliminary response; and a glossary of acronyms and terms.

Our comments, finding, and recommendation are organized by audit objective. The agency preliminary response was taken from the agency's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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Description of Agency

The Michigan Department of Transportation (MDOT) was organized under Act 380, P.A.1965 (Sections 16.450 - 16.458 of the *Michigan Compiled Laws*). MDOT is governed by the State Transportation Commission, which is composed of six members who are appointed by the Governor with the advice and consent of the Senate. The Commission is responsible for establishing policies. MDOT's director, who is appointed by the Governor, is responsible for administering MDOT and implementing the policies established by the Commission. MDOT's mission* is to provide the highest quality integrated transportation services for economic benefit and improved quality of life.

Act 51, P.A. 1951, requires strategic planning to be performed as one of the major functions of MDOT. The Federal Highway Act of 1970, as amended, mandates that MDOT maintain comprehensive transportation planning responsibility. Title 23, Part 450, Section 216 of the *Code of Federal Regulations* requires each state to develop transportation plans and programs for all areas of the state. The Bureau of Transportation Planning (BTP) is a principal bureau within MDOT. BTP's role is to develop and implement a comprehensive transportation planning process which results in transportation investments that are consistent with financial, social, economic, and environmental policies of the State Transportation Commission.

BTP's major processes include strategic planning, policy development, establishment of purpose and need for capital projects, highway project traffic forecasting and analysis, evaluation/selection of capacity improvement and new roads, environmental clearance, environmental mitigation and compliance, development of long-range plans, development of the transportation improvement program, management of the capital program, administration of the metropolitan planning process, revenue forecasting and analysis, intermodal planning, travel demand analysis and forecasting, system performance and condition monitoring, data collection/management to support strategic planning, data collection/management to support operational planning, and asset management.

BTP is organized into five divisions: Executive, Intermodal Policy, Statewide Transportation Planning, Project Planning, and Asset Management.

* See glossary at end of report for definition.

BTP's funding is provided from vehicle gas, weight, and value taxes plus sales tax on vehicles, parts, and accessories. This funding is distributed to transportation programs in accordance with Sections 247.651 - 247.674 of the *Michigan Compiled Laws* (Act 51, P.A. 1951). Funding is also provided by the U.S. Department of Transportation from federal fuel and excise taxes on certain commodities.

As of September 30, 2009, BTP had 171 employees. BTP expenditures totaled \$29 million for the fiscal year ended September 30, 2009.

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

Audit Objectives

Our performance audit* of the Bureau of Transportation Planning (BTP), Michigan Department of Transportation (MDOT), had the following objectives:

1. To assess the effectiveness* of BTP's process for ensuring the accuracy and completeness of the data collected for use in funding distributions and reporting.
2. To assess the effectiveness of BTP's efforts to include selected highway projects on State and federal transportation plans in accordance with State and federal requirements.

Audit Scope

Our audit scope was to examine the program and other records of the Bureau of Transportation Planning. 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit finding and conclusions based on our audit objectives. Our audit procedures, conducted from May through September 2009, generally covered the period October 1, 2006 through September 30, 2009.

Audit Methodology

We conducted a preliminary review of BTP's process to formulate a basis for defining our audit objectives and our audit scope. Our preliminary review included interviewing MDOT staff regarding their functions and responsibilities; reviewing applicable State and federal laws, regulations, policies, procedures, and manuals; and examining reports from various internal and external audits and reviews.

To assess the effectiveness of BTP's process for ensuring the accuracy and completeness of the data collected for use in funding distributions and reporting, we identified the types of data collected by BTP, the uses of data, and the related controls.

* See glossary at end of report for definition.

We also reviewed State and federal legislative and regulatory requirements and analyzed the processes that MDOT used to collect and review data reported to the Federal Highway Administration (FHWA). We tested the data reported and the controls MDOT has in place to ensure that the data was accurate and reliable.

To assess the effectiveness of BTP's efforts to include selected highway projects on State and federal transportation plans in accordance with State and federal requirements, we reviewed MDOT policies and procedures, including Call for Projects instructions. We developed a checklist of eligibility requirements for projects for inclusion in the Five-Year Transportation Program. We also identified components for testing and selected and reviewed projects for compliance.

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

Agency Responses and Prior Audit Follow-Up

Our audit report contains 1 finding and 1 corresponding recommendation. MDOT's preliminary response indicated that it agreed with the recommendation.

The agency preliminary response that follows the recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require MDOT to develop a formal response to our audit finding and recommendation within 60 days after release of the audit report.

We released our prior performance audit of the Bureau of Transportation Planning, Michigan Department of Transportation (59-150-01), in September 2003. Within the scope of this audit, we followed up 3 of the 5 prior audit recommendations. MDOT complied with 2 prior audit recommendations, and 1 prior audit recommendation was rewritten for inclusion in this report.

COMMENTS, FINDING, RECOMMENDATION,
AND AGENCY PRELIMINARY RESPONSE

PROCESS FOR ENSURING THE ACCURACY AND COMPLETENESS OF DATA

COMMENT

Audit Objective: To assess the effectiveness of the Bureau of Transportation Planning's (BTP's) process for ensuring the accuracy and completeness of the data collected for use in funding distributions and reporting.

Audit Conclusion: We concluded that BTP's process for ensuring the accuracy and completeness of the data collected for use in funding distributions and reporting was effective. Our report does not include any reportable conditions* related to this audit objective.

EFFORTS TO INCLUDE SELECTED HIGHWAY PROJECTS ON STATE AND FEDERAL TRANSPORTATION PLANS

COMMENT

Background: The Michigan Department of Transportation's (MDOT's) Call for Projects process includes 11 programs, such as the Road Rehabilitation and Reconstruction (R&R) Program, the Bridge Program, the Road Capital Preventive Maintenance Program, the Median Barrier Program, and the Pump Station Capital Rehabilitation Program.

At the beginning of each Call for Projects process, BTP develops and provides the instructions, strategies, and criteria to MDOT's regional offices for selecting road and bridge projects. Using the strategies and criteria provided by BTP, MDOT's regional offices work in collaboration with local road agencies to select the road and bridge projects that they would like to have added to MDOT's Five-Year Transportation Program. BTP uses the Project Screening Committee to review, approve, and make recommendations for those road and bridge projects to be added to MDOT's Five-Year Transportation Program.

* See glossary at end of report for definition.

Audit Objective: To assess the effectiveness of BTP's efforts to include selected highway projects on State and federal transportation plans in accordance with State and federal requirements.

Audit Conclusion: We concluded that BTP's efforts to include selected highway projects on State and federal transportation plans in accordance with State and federal requirements were effective. Our assessment disclosed one reportable condition related to the Call for Projects selection process (Finding 1).

FINDING

1. Call for Projects Selection Process

BTP did not document the Project Screening Committee's justification for accepting road and bridge projects that did not comply with eligibility criteria for inclusion in MDOT's Five-Year Transportation Program.

BTP is responsible for coordinating an annual Call for Projects process to select the road and bridge projects that will be added to MDOT's Five-Year Transportation Program. BTP works in conjunction with MDOT's regional offices to develop and evaluate a list of prospective road and bridge projects.

Road and bridge projects that do not meet the general eligibility criteria specified by the Call for Projects instructions can still be accepted and included in MDOT's Five-Year Transportation Program, but only if MDOT's regional offices provide sufficient justification for accepting those projects.

BTP approved projects totaling \$595.7 million for inclusion in MDOT's Five-Year Transportation Program during fiscal year 2007-08. Thirty-three projects, totaling \$369.5 million, were targeted for the R&R Program. The R&R Program is used to rehabilitate and reconstruct pavements that have deteriorated significantly and are no longer viable candidates for capital preventive maintenance.

However, our review of 8 of these R&R approved projects, totaling \$94.3 million (26%), disclosed that 4 (50%) of the projects, with a total cost of \$32.6 million, did not meet R&R eligibility criteria, as specified by BTP. Our review also disclosed that BTP did not document justification for the acceptance of the 4 projects that did not meet specified eligibility criteria for inclusion in the Five-Year Transportation Program.

For example, the instructions for submission of R&R Program projects stated that projects must be targeted toward pavements that are poor (have remaining service life of 0 - 2 years for the pavement) at the time of construction. The instructions also stated that exceptions will be considered if justification is provided. Our review disclosed that one region submitted a project that had a pavement rating of good (remaining service life of 4 years) at the time of construction. The justification for submitting the project for consideration was that the ride quality index and the road distress index were poor. The region suggested that the pavement was old and had multiple capital preventive maintenance fixes before and was no longer eligible for a capital preventive maintenance fix. However, BTP did not provide documentation to confirm that it had examined additional evidence or that the accuracy of the information provided had been verified. This project was accepted by BTP and included in MDOT's Five-Year Transportation Program.

RECOMMENDATION

We recommend that BTP document the Project Screening Committee's justification for accepting road and bridge projects that did not comply with eligibility criteria for inclusion in MDOT's Five-Year Transportation Program.

AGENCY PRELIMINARY RESPONSE

MDOT agreed with the recommendation. MDOT informed us that during the 2015 Call for Projects, which started in December 2009, BTP began documenting why the Project Screening Committee accepted any road project outside the eligibility criteria specified in the Call for Projects instructions. Such acceptance is normally based on the Project Steering Committee members' expert opinion of information provided or on additional information, follow-up, and verification, as considered necessary by the Project Steering Committee. Beginning with the 2016 Call for Projects, anticipated to start in December 2010, BTP will begin documenting why the Project Steering Committee accepts any bridge projects outside the eligibility criteria specified in the Call for Projects instructions. In addition, MDOT informed us that the Call for Projects process is currently undergoing a process improvement review, and the recommendation from this audit has been shared with the process improvement team for consideration in any redesigned process.

GLOSSARY

Glossary of Acronyms and Terms

BTP	Bureau of Transportation Planning.
effectiveness	Success in achieving mission and goals.
MDOT	Michigan Department of Transportation.
mission	The main purpose of a program or an agency or the reason that the program or the agency was established.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve program operations, to facilitate decision making by parties responsible for overseeing or initiating corrective action, and to improve public accountability.
reportable condition	A matter that, in the auditor's judgment, falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the objectives of the audit; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
R&R	Road Rehabilitation and Reconstruction.

