

Office of the Auditor General
Performance Audit Report

**Transport, Construction, Billboard, and
Junkyard Permitting Activities**
Michigan Department of Transportation

April 2015

State of Michigan Auditor General
Doug A. Ringler, CPA, CIA

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



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Report Summary

Performance Audit

Transport, Construction, Billboard, and Junkyard Permitting Activities

Michigan Department of Transportation (MDOT)

Report Number:
591-0171-14

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April 2015

The Utility Coordination and Permit Section and transportation service centers (TSCs) issue and monitor transport, construction, billboard, and junkyard permits. The Section issues permits associated with oversize and/or overweight commercial vehicles and/or loads, regulates billboards, and is responsible for permitting and monitoring junkyards. The TSCs approve the routes that superloads are to travel and review, approve, and issue permits for construction activities.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of MDOT's efforts to ensure that fees associated with the issuance and monitoring of permits recover related costs.			Effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Between October 1, 2011 and September 30, 2013, costs to issue and monitor construction permits exceeded revenues generated by \$5.4 million (an average of \$535 per permit processed) (<u>Finding #1</u>).		X	Disagrees
Observation Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Transport permit fees for the movement of oversize and/or overweight vehicles have not been revised in over 17 years and are lower than several surrounding states. State statute allows MDOT to recover only the administrative cost of issuing the transport permit for these vehicles (<u>Observation#1</u>).	Not applicable	Not applicable	Disagrees

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of MDOT's efforts to issue permits.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDOT should establish a comprehensive performance measurement process to evaluate its construction permitting operations. Such a process could assist MDOT with improving operational effectiveness (<u>Finding #2</u>).		X	Agrees
MDOT did not consistently comply with its procedures for issuing transport and construction permits. MDOT could not ensure that all permits were appropriate and contained the required guarantees and insurance (<u>Finding #3</u>).		X	Agrees

Audit Objective			Conclusion
Objective #3: To assess the effectiveness of MDOT's efforts to oversee permit-related compliance activities.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDOT did not document that it effectively monitored approved and closed State highway right-of-way permits. For fiscal years 2012 and 2013, MDOT could not ensure that 62.5% of permits were issued appropriately, 60.3% of permits were approved and closed, or that 37.5% of projects received a final inspection (<u>Finding #4</u>).		X	Agrees
MDOT did not document that it consistently pursued corrective action related to illegal billboards. Owners of illegal billboards could have displayed their advertisements for extended periods of time (<u>Finding #5</u>).		X	Agrees
MDOT did not actively administer a statutorily required junkyard program. MDOT had not inspected or inventoried the State's junkyards in 29 years. MDOT neither knew how many junkyards existed nor knew if all existing junkyards complied with statutory requirements (<u>Finding #6</u>).		X	Agrees

Audit Objective			Conclusion
Objective #4: To assess the effectiveness of MDOT's efforts to control access to and monitor usage of the computer systems used to process permitting activities.			Moderately effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDOT needs improved controls over the Michigan Transport Routing and Internet Permitting System (MiTrip) and Construction Permit System (CPS) to help prevent and detect inappropriate access and help ensure the integrity of data. Seven individuals, who did not have work responsibilities related to MDOT, had access to these resources (<u>Finding#7</u>).		X	Disagrees



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Doug A. Ringler, CPA, CIA
Auditor General

April 30, 2015

Mr. Jerrold M. Jung, Chair
State Transportation Commission
and
Kirk T. Steudle, P.E., Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Jung and Mr. Steudle:

I am pleased to provide this performance audit report on Transport, Construction, Billboard, and Junkyard Permitting Activities, Michigan Department of Transportation.

We organized the background, findings, recommendations, and observation 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

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BACKGROUND, FINDINGS,
RECOMMENDATIONS,
AND OBSERVATION

ENSURING THAT FEES ASSOCIATED WITH THE ISSUANCE AND MONITORING OF PERMITS RECOVER RELATED COSTS

BACKGROUND

The Utility Coordination and Permit Section and the transportation service centers (TSCs) issue and monitor transport*, construction*, billboard*, and junkyard* permits for the Michigan Department of Transportation (MDOT) as follows:

- The Transport Permits Unit issues permits associated with oversize and/or overweight commercial vehicles and/or loads. TSCs approve the routes that superloads* are to travel before the Unit issues a superload permit. During fiscal year 2013, the Transport Permits Unit issued 105,244 transport permits (see Exhibit 1), including 2,749 superload permits. MDOT reported that the issuance of transport permits generated revenues of \$4.4 million for fiscal year 2013.
- All 22 TSCs review, approve, and issue permits for construction activities, and the Construction and Highway Advertising Permits Unit provides central office guidance and assistance to TSC staff with processing permits for State trunkline* construction activities. Also, TSCs coordinate all private and municipal utility activities related to MDOT construction projects. MDOT is responsible for setting the rates associated with construction permits. During fiscal year 2013, the 22 TSCs approved 4,662 construction permits (see Exhibit 2), which generated \$1.1 million in fee revenues.
- The Section regulates billboards that can be seen from the State's trunklines and the National Highway System* (NHS) roadways. The Section's billboard activities include processing permit applications, processing permit renewals, and conducting an annual inventory of legal and illegal* billboards (see Exhibit 4). The Section maintains a software system that tracks billboard activities. Act 2, P.A. 2014, sets the rates that MDOT can charge for billboard permitting activities. For fiscal year 2013, the Section billed for 14,406 billboard permits (see Exhibit 3), which generated \$941,000 in fee revenues.

AUDIT OBJECTIVE

To assess the effectiveness* of MDOT's efforts to ensure that fees associated with the issuance and monitoring of permits recover related costs.

* See glossary at end of report for definition.

CONCLUSION

Effective.

**FACTORS
IMPACTING
CONCLUSION**

- During fiscal year 2013, revenues from transport permits exceeded the costs to issue and monitor the permits by \$3.3 million (\$31 per permit issued).
- During fiscal year 2013, the costs to issue and monitor billboard permits did not significantly exceed related revenues.
- MDOT analyzed construction permit revenues and costs. MDOT was aware that fees did not cover the costs; however, it determined that it was not in the State's best interest to increase fees given the latitude the legislation provides.
- During fiscal year 2013, the costs to issue and monitor construction permits exceeded revenues by \$3.3 million (\$647 per permit processed).

FINDING #1

Construction permit fees did not cover costs.

MDOT's costs to issue and monitor construction permits exceeded permit fee revenues by an average of \$2.7 million annually.

Construction permit fees did not cover MDOT's costs to issue and monitor those permits.

Section 301(1) of MDOT's annual appropriations acts approved during the audit period states that MDOT may establish a fee schedule and collect fees sufficient to cover the costs to issue the permits that MDOT is authorized by law to issue, unless otherwise stipulated by law. For the period October 1, 2011 through September 30, 2013, MDOT processed 10,084 construction permit applications.

For the period October 1, 2011 through September 30, 2013, MDOT's costs to issue and monitor construction permits exceeded revenues generated by \$5.4 million (an average of \$535 per permit processed), with \$7.4 million in expenditures and \$2.0 million of fee revenues reported.

Although MDOT was aware that the costs of processing construction permits exceeded revenues generated, MDOT had not increased its construction permit fees since 1995. MDOT indicated that such decision was made to hold current rates stable to promote a business friendly Michigan.

RECOMMENDATION

We recommend that MDOT reconsider increasing its construction permit fees to cover the costs of issuing and monitoring those permits.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT does not concur with the recommendation. MDOT agrees that construction permit fees did not cover MDOT's costs to issue and monitor those permits. However, the finding does not clarify to the reader that MDOT is not required by State law to cover its costs. As correctly noted in the finding, MDOT's decision to hold current construction permit rates stable was intended to promote a business-friendly Michigan.

Additionally, in regard to the "Factors Impacting Conclusion" preceding Finding #1, the reported average loss per permit (\$647) is an oversimplification of a complex issue and inaccurately presents the context for the topic. Unlike the homogenous nature of transport permits, which have an average cost that is relatively accurate, different types of construction permits result in vastly different costs to MDOT. A construction permit for a small-town annual parade would take a few minutes to review and approve, while a utility construction permit in a metropolitan area with critical mobilization requirements would require many personnel hours or personnel days to review and approve. MDOT also disagrees with a similar presentation in the Finding, regarding the reported average cost of \$535 per processed permit.

Increasing construction permit fees may, or may not, be the best option for funding this program. MDOT will continue to work with the Administration and the Legislature to determine the most viable method of funding the construction permitting program.

OBSERVATION #1

Transport permit fees for oversize and/or overweight vehicles and loads.

Michigan's maximum allowed vehicle weight is 164,000 pounds, provided the vehicle has the proper number of axles and spacing.

For the movement of cargo that is oversize and/or overweight and cannot reasonably be divided, dismantled, reduced, or otherwise rearranged to conform to legal dimensions and/or weights as provided by law, MDOT issues transport permits. The permitting of oversize and/or overweight vehicles is in the State's best interest because it:

- Protects the motoring public from potential traffic hazards.
- Protects highway surfaces, structures, and private property.
- Allows for the normal flow of traffic with minimum interference.

Section 257.725 of the *Michigan Compiled Laws* established the fees that MDOT can charge when issuing permits to operate oversize and/or overweight vehicles and loads on State trunklines. The statute allows MDOT to recover only the administrative cost of issuing the transport permit for oversize and/or overweight vehicles.

During fiscal year 2013, MDOT issued 105,244 transport permits for oversize and/or overweight vehicles, which generated revenues of \$4.4 million. Fifty-one loads exceeded 400,000 pounds.

Michigan's transport permit fees, last revised in July 1998, are lower than Indiana's, Illinois', and Ohio's fees for oversize and/or overweight vehicles:

	Oversize but Not Overweight		Oversize and/or Overweight	
	Single Trip	Annual	Single Trip	Annual
Michigan				
Current	\$15	\$ 30	\$ 50	\$ 100
House Bill 5452 of 2014	\$30	\$150	\$100	\$ 500
Indiana	\$30	\$405	\$20 plus \$.60/mile (a)	
Illinois	\$20 (b)	\$600	\$125 (b)	
Ohio	\$65	\$970 (c)	\$135	\$1,970 (c)

- (a) Assumes vehicle plus load is approximately 150,000 pounds.
- (b) Assumes 150-mile trip.
- (c) Assumes one-way trip.

Transport permit fees have not been revised in over 17 years and are lower than several surrounding states.

Revisiting the fee structure would help to determine whether transport permit fees still reasonably recover administrative costs, given they have not been revised for 17 years, and whether legislative changes are necessary to allow for the fees to recover the additional costs of monitoring transport permits.

In addition, the State could consider analyzing whether oversized and/or overweight vehicles cause a disproportionate share of damages to roadways and bridges. We are not aware of any legislatively required or MDOT-initiated analyses to determine such effect.

**AGENCY
PRELIMINARY
RESPONSE**

MDOT provided us with the following response:

MDOT respectfully disagrees with some of the messages implied by the Observation.

While MDOT understands that the Observation is intended to be informative and is not intended to recommend action by MDOT, the Observation does not clarify that the Legislature, not MDOT, is responsible for the fee structure, which has not been changed since 1998. Also, the Observation does not make sufficiently clear that the 51 loads that were at 400,000 pounds were issued legal permits based on State statute.

ISSUING PERMITS

BACKGROUND

The Section and TSCs issue and monitor transport, construction, billboard, and junkyard permits for MDOT as follows:

- The Transport Permits Unit issues permits associated with oversize and/or overweight commercial vehicles and/or loads that cannot reasonably be divided, dismantled, reduced, or otherwise rearranged to conform to legal dimensions and/or weights as provided by law. TSCs approve the routes that superloads are to travel before the Unit issues a superload permit.
- All 22 TSCs review, approve, and issue permits for construction activities, and the Construction and Highway Advertising Permits Unit provides central office guidance and assistance to TSC staff with processing permits for State trunkline construction activities. Also, TSCs coordinate all private and municipal utility activities related to MDOT construction projects. Specifically, TSC duties include serving as MDOT's primary liaison with utilities and participating in the review of all utility related construction permits within the TSC area.
- The Section regulates billboards that can be seen from the State trunklines and the NHS roadways. The Section's billboard activities include processing permit applications, processing permit renewals, and conducting an annual inventory of legal and illegal billboards (see Exhibit 4). The Section maintains a software system that tracks billboard activities.

AUDIT OBJECTIVE

To assess the effectiveness of MDOT's efforts to issue permits.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- MDOT had established and measured performance indicators related to processing times for transport permits.
- MDOT had not established a comprehensive performance measurement process to evaluate and improve the effectiveness of its construction permitting operations.
- MDOT did not consistently comply with its procedures for issuing transport and construction permits.

FINDING #2

A comprehensive performance measurement process would help MDOT improve the effectiveness of its construction permitting operations.

Performance measurement can result in recommendations to improve effectiveness and efficiency or change the desired performance standards or goals.

MDOT should establish a comprehensive performance measurement process to evaluate its construction permitting operations. Such a process could assist MDOT with improving operational effectiveness.

Performance measurement is an essential tool for managing the quality and costs of transportation services. An effective performance measurement process collects and assesses data and compares results against a performance standard*, such as what is desired, past occurrences, or other like agencies' performance. Performance measures* should be clearly defined with regard to what is being measured, the data sources that will be used, and how often data will be collected. Data should be collected and used at regular intervals to assess performance; measure progress toward achieving program goals* and objectives*; and consider actions, such as policy or operational changes. Thus, a performance measurement process can be used to develop recommendations to improve effectiveness and efficiency* or change the desired performance standards or goals.

Each of MDOT's 22 TSCs had the ability to set its own performance measures. However, staff responsible for processing and monitoring construction permits at the 5 TSCs that we visited were not aware of any required performance standards or goals related to the time lines of processing construction permits. We analyzed each TSC's performance based on the number of days from the receipt of a permit until the TSC approved or denied the permit (see Exhibit 6). The 22 TSCs took, on average, from 9 to 61 days to process and approve/deny construction permits. MDOT was not aware of the TSCs' performance.

MDOT had developed and used for billing purposes the average number of hours to approve, monitor, and inspect each of the 96 construction permit types. However, MDOT had neither developed a methodology nor periodically reviewed staff performance to assess the efficiency of staff in processing each type of permit.

MDOT stated that its primary concern was that the construction permits were issued, and it was not its intent to develop performance indicators for each construction permit type. However, in 2013, MDOT's Permit Alignment Team discussed developing performance measures for construction permits.

RECOMMENDATION

We recommend that MDOT establish a comprehensive performance measurement process to evaluate and improve the effectiveness of its construction permitting operations.

* See glossary at end of report for definition.

**AGENCY
PRELIMINARY
RESPONSE**

MDOT provided us with the following response:

MDOT concurs with the recommendation.

However, notwithstanding the five TSCs visited by the auditors, other TSCs have made substantial improvements in recent years to continuously evaluate and improve the effectiveness of their respective construction-permitting operations. For example, other TSCs have implemented new procedures with specific timelines for permit response and issuance based on the information now available through the Construction Permit System (CPS).

MDOT strongly supports performance measures and is a leader in measuring and monitoring its program activities. By April 2016, MDOT will identify and implement an appropriate performance measurement process for permit operations.

FINDING #3

Noncompliance with procedures for issuing permits exists.

MDOT could not ensure that all permits were appropriate and contained the required guarantees and insurance.

MDOT did not consistently comply with its procedures for issuing transport and construction permits. MDOT could not ensure that all permits were appropriate and contained the required guarantees and insurance.

MDOT's Transport Permits Procedure and Desk Operating Manuals and the Construction Permit Procedure and Desk Operating Manuals (CPPDOM) require certain tasks to be completed to approve, monitor, and close transport and construction permits.

To determine if MDOT transport and construction permits were reviewed and approved in compliance with departmental procedures, we reviewed:

- All 18 transport permits approved in 2013 with a combined vehicle and load weight in excess of 450,000 pounds.
- All 9,127 annual* and individual* construction permits that MDOT approved between October 1, 2011 and September 30, 2013.
- A random sample of 80 approved construction permits that were closed on the Construction Permit System (CPS) between October 1, 2011 and September 30, 2013.

Our review disclosed:

- a. The appropriate level of supervision did not approve any of the 18 transport permits for vehicle loads that exceeded 450,000 pounds for 2013. Transport Permits Procedure and Desk Operating Manuals procedure 1704.01 dm states that any vehicle load in excess of 450,000 pounds shall be approved by the Section manager prior to issuing the transport permit.
- b. Staff who processed 2,818 (30.9%) of the 9,127 annual and individual construction permits also reviewed and approved these permits. CPPDOM procedures 1502.01, 1502.01 dm, and 1502.11 dm state that the review and approval of a construction permit shall not be conducted by the same staff who processed the permit.
- c. MDOT did not document that 5 (6.3%) of the 80 randomly sampled construction permit applications contained the surety (performance guarantees). CPPDOM procedure 1504.01 requires that construction

* See glossary at end of report for definition.

permits may be issued to governmental agencies, utility companies, and other parties only after the proper surety has been supplied by the permit applicant.

- d. MDOT did not document that 7 (8.8%) of the 80 randomly sampled construction permits contained the appropriate level of insurance. CPPDOM procedure 1504.23 dm requires that, unless the permit applicant falls under self-insured or exempt, a certificate of insurance is required.

RECOMMENDATION

We recommend that MDOT consistently comply with its procedures for issuing transport and construction permits.

**AGENCY
PRELIMINARY
RESPONSE**

MDOT provided us with the following response:

MDOT concurs with the recommendations.

By April 2016, MDOT will update its procedures so that appropriate operational practices are reflected in procedure manuals and desk operating manuals.

OVERSEEING PERMIT-RELATED COMPLIANCE ACTIVITIES

BACKGROUND	The Section, in conjunction with the TSCs, is responsible for permitting and monitoring junkyards that can be seen from the State trunklines and the NHS roadways. MDOT stated that, because of a lack of federal funding, it has not had an active junkyard program in a number of years.
AUDIT OBJECTIVE	To assess the effectiveness of MDOT's efforts to oversee permit-related compliance activities.
CONCLUSION	Moderately effective.
FACTORS IMPACTING CONCLUSION	<ul style="list-style-type: none">• MDOT had inventoried billboards and had developed a listing of potentially illegal billboards during fiscal year 2013.• MDOT did not document that it effectively monitored approved and closed State highway right-of-way permits.• Owners of illegal billboards could have displayed their advertisements for extended periods of time.• MDOT had not inspected or inventoried the State's junkyards in 29 years.

FINDING #4

MDOT lacked documentation for monitoring right-of-way permits.

MDOT did not document that it effectively monitored approved and closed State highway right-of-way permits.

Act 368, P.A. 1925, Act 200, P.A. 1969, and Act 106, P.A. 1972, prohibit the obstruction and encroachment of public highways without MDOT's consent. MDOT developed a permitting process to allow construction work within the State highway right-of-way. Also, the CPPDOM requires MDOT to approve, monitor, and close a construction permit.

We analyzed information in CPS for all 10,084 construction permits processed during fiscal years 2012 and 2013. Also, we tested specific compliance items for a random sample of 80 approved and closed construction permits. Our review disclosed:

MDOT did not document that it completed reviews of the permit packages, obtained the site plans, was notified prior to the beginning of construction, and completed the final inspections.

- a. MDOT did not document that it completed reviews of the permit packages for 5,708 (62.5%) of the 9,127 approved permits. As a result, MDOT could not ensure that it verified that the applicants met eligibility requirements and provided the project specifications and adequate surety.

CPPDOM procedures 1502.01 and 1502.11 require MDOT staff to complete permit applicant reviews using CPS.

- b. MDOT did not document the site plans for 11 (13.8%) of the 80 randomly sampled permits. As a result, MDOT could not ensure that it verified the exact type of work that was to take place and that the site plan met MDOT requirements.

CPPDOM procedure 1502.01 requires that MDOT document the site plans for all individual permits.

- c. MDOT did not document that it received and approved advance notice of construction for 2,440 (60.3%) of the 4,047 annual and individual permits approved and closed. Advance notices communicate to MDOT that the permit holder will pursue the approved activities. As a result, MDOT may not have had sufficient time to avert traffic flow issues caused by the construction project.

CPPDOM procedures 1502.01 and 1502.11 require that MDOT receive and approve the advance notice of construction in CPS.

- d. MDOT did not document that it had completed a final inspection for 1,197 (37.5%) of the 3,195 individual permits approved and closed, including 43 (53.8%) of

the 80 permits randomly sampled. As a result, MDOT could not ensure that the construction work was completed in compliance with the terms of the permit.

CPPDOM procedure 1502.01 requires that MDOT complete a final inspection prior to MDOT closing the permit.

RECOMMENDATION

We recommend that MDOT effectively monitor approved and closed State highway right-of-way permits.

**AGENCY
PRELIMINARY
RESPONSE**

MDOT provided us with the following response:

MDOT concurs with the recommendations.

By April 2016, MDOT will update the procedure and desk manuals to accurately reflect current practices and will establish appropriate performance monitoring standards for these permits.

FINDING #5

MDOT lacked documentation of corrective action for illegal billboards.

MDOT identified 436 potentially illegal billboards, but had not pursued corrective action for 198 of them in a timely manner.

MDOT did not document that it consistently pursued corrective action related to illegal billboards. Owners of illegal billboards could have displayed their advertisements for extended periods of time.

Section 252.319 of *Michigan Compiled Laws* states that MDOT may remove billboards and their supporting structures erected or maintained in violation of Act 106, P.A. 1972. MDOT Highway Advertising and Desk Operating Manuals procedure 1603.01 requires MDOT to inform the billboard owner of the violation, why the violation exists, and that the billboard is subject to removal and to inspect an illegal billboard site within 60 days from when the owner was notified of the violation.

During fiscal year 2013, MDOT identified 436 potentially illegal billboards (see Exhibit 4). MDOT indicated that it had worked to identify which of these billboards were not in compliance with State statutes and either bring them into compliance or have them removed. However, as of June 2014, MDOT had not documented its efforts pursued on 198 (45.4%) of these potentially illegal billboards.

We judgmentally selected 25 of the 198 potentially illegal billboards to review and noted:

- a. MDOT had not documented its notification to 12 (48.0%) billboard owners of the violations or the reasons why the violations existed.
- b. MDOT had not documented its inspection of 9 (36.0%) illegal billboard sites. Also, MDOT staff did not sign the inspection documents for 5 (31.3%) of the 16 inspections completed.

MDOT stated that it allocated available resources to other priorities. Also, MDOT informed us that it attempts to work with the billboard owner prior to removing the sign and, if an illegal billboard does not present a safety issue, emphasis may not be directed toward removing the sign.

RECOMMENDATION

We recommend that MDOT document corrective action related to illegal billboards.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT concurs with the recommendation.

However, although MDOT concurs with the recommendation, the wording of this finding does not accurately represent MDOT's efforts in Outdoor Advertising Control. The finding does not mention due process rights of the owner of the

potentially illegal billboard or considerations of cost-effectiveness of obtaining compliance. Following the full administrative procedure, as spelled out in Michigan Promulgated Rules R247.742, and Sections 24.271 through 24.287 and 252.323 of the Michigan Compiled Laws, from notification through administrative hearing, court proceedings and appeals, and final removal of the billboard, can take more than a year and has been costly to the State. MDOT considers cost-effectiveness and safety of the traveling public when MDOT decides between judicious "no action" on an issue that MDOT believes will self-correct (e.g., a town-festival sign that the town will remove after the festival) and pose no immediate harm to the traveling public, and the time and costs it would take to go through the full due process.

By April 2016, MDOT will develop a process for documenting corrective action activities related to alleged illegal billboards.

FINDING #6

Administration of junkyard program is needed.

MDOT did not know how many junkyards existed or whether existing junkyards were operating legally.

MDOT did not actively administer a statutorily required junkyard program. MDOT was not in compliance with federal standards and could not ensure that junkyards located throughout the State operated in accordance with federal and State statutory requirements.

Act 219, P.A. 1966, charged MDOT with promulgating rules and regulations to control junkyards adjacent to highways in order to promote public safety, health, welfare, convenience, and enjoyment of public travel; to protect the public investment in public highways; to preserve and enhance the scenic beauty of lands bordering public highways; and to attract tourists and promote the prosperity, economic well-being, and general welfare of the State. Also, as of October 1, 2012, Title 23, section 136 of the *United States Code*, as amended, requires states to be responsible for effective junkyard control along all roadways classified as part of the NHS, including the Interstate Highway System.

MDOT had not inventoried or inspected the State's junkyards since 1985 and did not know how many junkyards existed or if all existing junkyards complied with statutory requirements.

MDOT stated that it did not have the resources to effectively monitor the State's junkyards. In early 2014, MDOT assigned a staff person to develop a plan to reinstitute the State's junkyard program.

RECOMMENDATION

We recommend that MDOT actively administer the statutorily required junkyard program.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT concurs with the recommendation.

Since 1985, MDOT has considered its priorities in terms of safety to the traveling public and the conditions of the State's roadways when it decided whether to commit the resources needed to comply with Title 23, section 136 of the United States Code and laws such as Act 219, P.A. 1966. Going forward, MDOT will administer the junkyard program as necessary to protect federal funding and within the limits of available resources and considerations of cost-effectiveness. MDOT will also work with the Administration and the Legislature to obtain and provide funding at levels necessary to carry out an agreed upon program.

CONTROLLING ACCESS TO AND MONITORING USAGE OF COMPUTER SYSTEMS

BACKGROUND

The Michigan Transport Routing and Internet Permitting System (MiTrip) is a Web-based application that allows entities to submit permit applications and proposed routes electronically for oversize and/or overweight vehicles and loads. MDOT uses MiTrip to review and approve permit applications and to document travel restrictions for the oversize and/or overweight vehicles and loads.

CPS is a Web-based application that allows private and public entities to submit permit applications and supporting documentation. MDOT uses CPS to record, process, issue, monitor, and report on construction permits.

The Internet Highway Advertising Program (IHAP) is a Web-based application that allows entities to submit billboard permit applications and supporting documentation. MDOT uses IHAP to review and approve or deny billboard permit applications, maintain an inventory of permitted billboards, and generate annual permit renewal notices.

Each MiTrip, CPS, or IHAP user should have a user identification, password, and security role assignment.

AUDIT OBJECTIVE

To assess the effectiveness of MDOT's efforts to control access to and monitor usage of the computer systems used to process permitting activities.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- MDOT had established effective controls for granting and periodically reviewing user access to IHAP.
- MDOT provides contract employees with "read only" access to CPS, preventing them from making unwarranted changes.
- MDOT had not fully established effective controls over granting user access to MiTrip and CPS.

FINDING #7

Controls over user access to MiTrip and CPS need improvement.

MDOT needs improved controls over MiTrip and CPS to help prevent and detect inappropriate access and help ensure the integrity of MiTrip and CPS data.

Department of Technology, Management, and Budget Administrative Guide policy 1335 requires system owners to maintain a formalized process to manage access to information technology resources, including limiting access to authorized users whose job responsibilities require it.

We interviewed MDOT staff who granted access to the systems and reviewed the access capabilities of all 18 MiTrip users and a random sample of 25 of the 299 CPS users. We noted:

- a. MDOT had not established a formal policy for granting access to MiTrip or CPS.
- b. MDOT did not maintain records regarding why individuals were granted their levels of access to those systems.
- c. MDOT did not have a process to periodically review and audit user access to ensure that access was consistent with user job responsibilities:

Five former State employees and two former contractors had access to MDOT's MiTrip or CPS.

- (1) As of July 2014, 3 (16.7%) of the 18 MiTrip users who had the ability to approve, issue, renew, and void transport permits were no longer employed by the State. The individuals had left State employment between August 2012 and January 2013. MDOT canceled the users' access after we brought the issue to MDOT's attention.

- (2) As of June 2014, 2 (8.0%) of the 25 CPS users sampled were former employees who had left State employment in June 2013 and January 2014 and 2 (8.0%) other CPS users sampled were contractors who no longer provided services to the State. MDOT canceled the users' access after we brought the issue to MDOT's attention.

- d. MDOT did not monitor the usage of MiTrip or CPS.

RECOMMENDATION

We recommend that MDOT fully establish effective access controls over MiTrip and CPS.

AGENCY PRELIMINARY RESPONSE

MDOT provided us with the following response:

MDOT does not concur with the recommendation. MDOT believes, with the use of network identification numbers and Single Sign On (SSO) credentials, that it effectively controlled

access to computer systems used to process permitting activities.

Specifically relative to part c. of the finding, MDOT believes that current network security processes prevent unauthorized access to MiTrip and CPS. Network identification numbers and SSOs, which are an integral part of the State's information technology systems of security and control, are the initial system access point, whereas MiTrip and CPS credentials are a secondary access point and rendered useless without the first.

However, despite the existence of network identification numbers and SSOs, and in recognition of parts a. and b. of the finding, MDOT will work with the Department of Technology, Management, and Budget to develop additional access control and monitoring of MiTrip and CPS by July 1, 2015.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit 1

TRANSPORT, CONSTRUCTION, BILLBOARD, AND JUNKYARD PERMITTING ACTIVITIES Michigan Department of Transportation (MDOT)

Transport Permits Issued For Fiscal Years 2012 and 2013

Permit Type Name	Permits Issued		
	Fiscal Year 2012	Fiscal Year 2013	Total
Single Trip Equipment	35,583	34,555	70,138
Single Trip Mobile/Modular Home	8,686	8,739	17,425
Single Trip Miscellaneous	42,604	42,222	84,826
Single Trip Superload	3,230	2,749	5,979
Single Trip House/Building	31	32	63
Agricultural - Truck	386	479	865
Agricultural - Trailer	420	512	932
Construction Equipment - Truck	2,009	2,295	4,304
Construction Equipment - Trailer	1,665	1,902	3,567
Construction Equipment - Object	6,251	7,408	13,659
Miscellaneous - Truck	749	991	1,740
Miscellaneous - Trailer	819	1,038	1,857
Miscellaneous - Object	451	669	1,120
Empty Self-Propelled Equipment	52	54	106
Mobile/Modular Home - Truck	123	98	221
9 Foot Wide Logging Trailer	3	0	3
Pipe/Pole - Truck	729	838	1,567
Pipe/Pole - Trailer	452	461	913
Hydraulic Boat Lift Trailer	24	7	31
Raw Forest in UP	22	14	36
Pavement Marking Truck	1	16	17
Rubbish Truck	14	2	16
Snow Plow	20	25	45
Wrecker	97	138	235
Totals	104,421	105,244	209,665

Source: MDOT's Utility Coordination and Permit Section.

TRANSPORT, CONSTRUCTION, BILLBOARD, AND JUNKYARD PERMITTING ACTIVITIES

Michigan Department of Transportation (MDOT)

Construction Permits Approved and Permit Fees
For Fiscal Years 2012 and 2013

Count	Permit Type	Permits Approved			Permit Fee
		Fiscal Year 2012	Fiscal Year 2013	Total	
1	Residential driveways and farm field driveways	246	222	468	\$ 30
2	Non-farm (forest products, etc.)	31	28	59	\$ 90
3	Commercial driveways, < = 15 parking spaces	57	47	104	\$ 90
4	Commercial driveways, 16 to 50 parking spaces	66	72	138	\$ 275
5	Commercial driveways, 51 to 100 parking spaces	26	36	62	\$ 410
6	Commercial driveways, > 100 parking spaces	0	0	0	\$ 410
7	Add right, left, center turn lane or passing flare to existing commercial driveway	3	4	7	\$ 410
8	Street approaches	98	88	186	\$ 700
9	Additional signalized intersection	0	0	0	\$ 700
10	Resurfacing existing residential driveways	48	49	97	\$ 15
11	Resurfacing existing commercial driveways	50	54	104	\$ 45
12	Utility relocation due to an MDOT project	160	154	314	\$ 0
13	Trenchless single farside utility tap	39	55	94	\$ 90
14	Trenchless single nearside utility tap	0	0	0	\$ 180
15	Trenchless pipe installation <= 6" diameter <= 100' long	83	101	184	\$ 180
16	Trenchless pipe installation <= 6" diameter > 100' long	142	167	309	\$ 410
17	Trenchless pipe installation > 6" diameter <= 100' long	49	73	122	\$ 410
18	Trenchless pipe installation > 6" diameter > 100' long	0	0	0	\$ 410
19	Pavement cutting <= 6' x 6'	33	29	62	\$ 275
20	Pavement cutting > 6' x 6'	29	24	53	\$ 410
21	Service drop	28	18	46	\$ 90
22	Add underground utility within existing duct	95	106	201	\$ 90
23	Aerial <= 100' long	43	51	94	\$ 90
24	Aerial > 100' long	68	76	144	\$ 275
25	Add aerial to existing poles	0	0	0	\$ 90
26	Trenching - Gas, oil, water, steam	35	44	79	\$ 410
27	Sewer, gas, or water tap >3" diameter	44	41	85	\$ 90
28	Underground utility <= 1 mile	340	274	614	\$ 525
29	Underground utility > 1 mile	279	407	686	\$ 525
30	Limited access right-of-way - Per mile	6	3	9	\$ 1,000
31	Limited access right-of-way - Per mile ~ Minimum	4	3	7	\$ 5,000
32	Add underground utility within existing duct	0	0	0	\$ 90
33	Aerial utility <= 1 mile	89	98	187	\$ 410
34	Aerial utility > 1 mile	0	0	0	\$ 630
35	Add aerial utility to existing poles <= 1 mile	0	0	0	\$ 90
36	Add aerial utility to existing poles > 1 mile	0	0	0	\$ 90
37	Not initially designed to accommodate ~ Bridge structure	1	1	2	\$ 410
38	Initially designed to accommodate ~ Bridge structure	23	1	24	\$ 275
39	Utility relocation due to an MDOT project	0	0	0	\$ 0
40	Annual permit for routine maintenance and emergencies, activities per region < 50	315	270	585	\$ 525

This exhibit continued on next page.

TRANSPORT, CONSTRUCTION, BILLBOARD, AND JUNKYARD PERMITTING ACTIVITIES

Michigan Department of Transportation (MDOT)

Construction Permits Approved and Permit Fees

For Fiscal Years 2012 and 2013

(Continued)

Count	Permit Type	Permits Approved			Permit Fee
		Fiscal Year 2012	Fiscal Year 2013	Total	
41	Annual permit for routine maintenance and emergencies, activities per region >= 50	8	58	66	\$ 700
42	Annual permit for routine maintenance and emergencies, activities Statewide < 150	42	41	83	\$ 1,575
43	Annual permit for routine maintenance and emergencies, activities Statewide >= 150	0	0	0	\$ 2,100
44	Soil boring - Individual (per site)	35	32	67	\$ 30
45	Soil boring - Annual per region	0	0	0	\$ 90
46	Soil boring - Annual Statewide	7	7	14	\$ 270
47	Monitor wells (maximum of 3)	51	20	71	\$ 30
48	Each additional well	0	0	0	\$ 30
49	Environmental remediation/Cleanup activities	0	0	0	\$ 180
50	Institutional control (environmental site closure)	5	3	8	\$ 410
51	Emergency hazardous spill cleanup	37	41	78	\$ 90
52	Discharge treated groundwater	4	1	5	\$ 180
53	Soil vapor extraction	2	0	2	\$ 180
54	Environmental agreement fee and permit	0	23	23	\$ 410
55	Billboard vegetation removal - Application	354	267	621	\$ 150
56	Billboard vegetation removal - Permit (minimum)	0	0	0	\$ 300
57	Billboard vegetation survey - Individual	111	114	225	\$ 30
58	Billboard vegetation survey - Annual per region	0	0	0	\$ 525
59	Billboard vegetation survey - Annual Statewide	3	2	5	\$ 1,575
60	Billboard consulting	0	0	0	Variable
61	Land survey - Individual	12	18	30	\$ 30
62	Land survey - Annual per region	1	2	3	\$ 90
63	Land survey - Annual Statewide	26	28	54	\$ 270
64	Non-holiday coffee breaks	0	1	1	\$ 90
65	Seismographic individual less than 2 hours to review	11	24	35	\$ 90
66	Grade and landscape free access <= 500' frontage	13	23	36	\$ 180
67	Grade and landscape free access > 500' frontage	7	5	12	\$ 270
68	Grade and landscape limited access	11	10	21	\$ 525
69	Tree trimming or plant removal	50	73	123	\$90 or \$275
70	Fence installation	6	7	13	\$ 90
71	Marquees, canopies, overhanging signs	15	16	31	\$ 90
72	Private street lights (on existing poles)	2	1	3	\$ 90
73	Signalized intersection	0	0	0	Not provided
74	Drainage (new development)	0	0	0	Not provided
75	Storm sewer tap-in (existing development)	0	0	0	\$ 90
76	Ditch enclosures	0	0	0	Not provided
77	Ditching and ditch clean out	17	10	27	\$ 90
78	Sidewalk (non-municipal)	63	50	113	Not provided
79	Sidewalk café (initial permit)	8	9	17	\$ 90

This exhibit continued on next page.

TRANSPORT, CONSTRUCTION, BILLBOARD, AND JUNKYARD PERMITTING ACTIVITIES

Michigan Department of Transportation (MDOT)

Construction Permits Approved and Permit Fees

For Fiscal Years 2012 and 2013

(Continued)

Count	Permit Type	Permits Approved			Permit Fee
		Fiscal Year 2012	Fiscal Year 2013	Total	
80	Sidewalk café (subsequent annual permit)	13	19	32	\$ 45
81	Banners and Christmas decorations	102	116	218	\$ 0
82	Trunkline closures	91	119	210	\$ 0
83	Governmental, within corporate limits	301	313	614	\$ 0
84	Operation C.A.R.E.	26	21	47	\$ 0
85	Junkyard	1	0	1	\$ 0
86	License agreement fee	0	0	0	\$ 100
87	Recording fee (first page)	0	0	0	\$ 14
88	Recording fee, each additional page	0	0	0	\$ 3
89	Special engineering reviews (per hour)	0	0	0	Variable
90	Inspections or reviews exceeding typical inspection and review time (per hour)	17	10	27	\$ 45
91	MDOT warranty work	0	14	14	\$ 0
92	Miscellaneous - Individual	323	373	696	\$ 30
93	Other - Annual	54	49	103	\$ 45
94	Work in department interest	97	130	227	\$ 0
95	Indefinite Delivery Service application	7	16	23	Not provided
96	Migrated exempt annual permit	2	0	2	Not provided
Totals		<u>4,465</u>	<u>4,662</u>	<u>9,127</u>	

Source: MDOT's Utility Coordination and Permit Section.

TRANSPORT, CONSTRUCTION, BILLBOARD, AND JUNKYARD PERMITTING ACTIVITIES
Michigan Department of Transportation (MDOT)

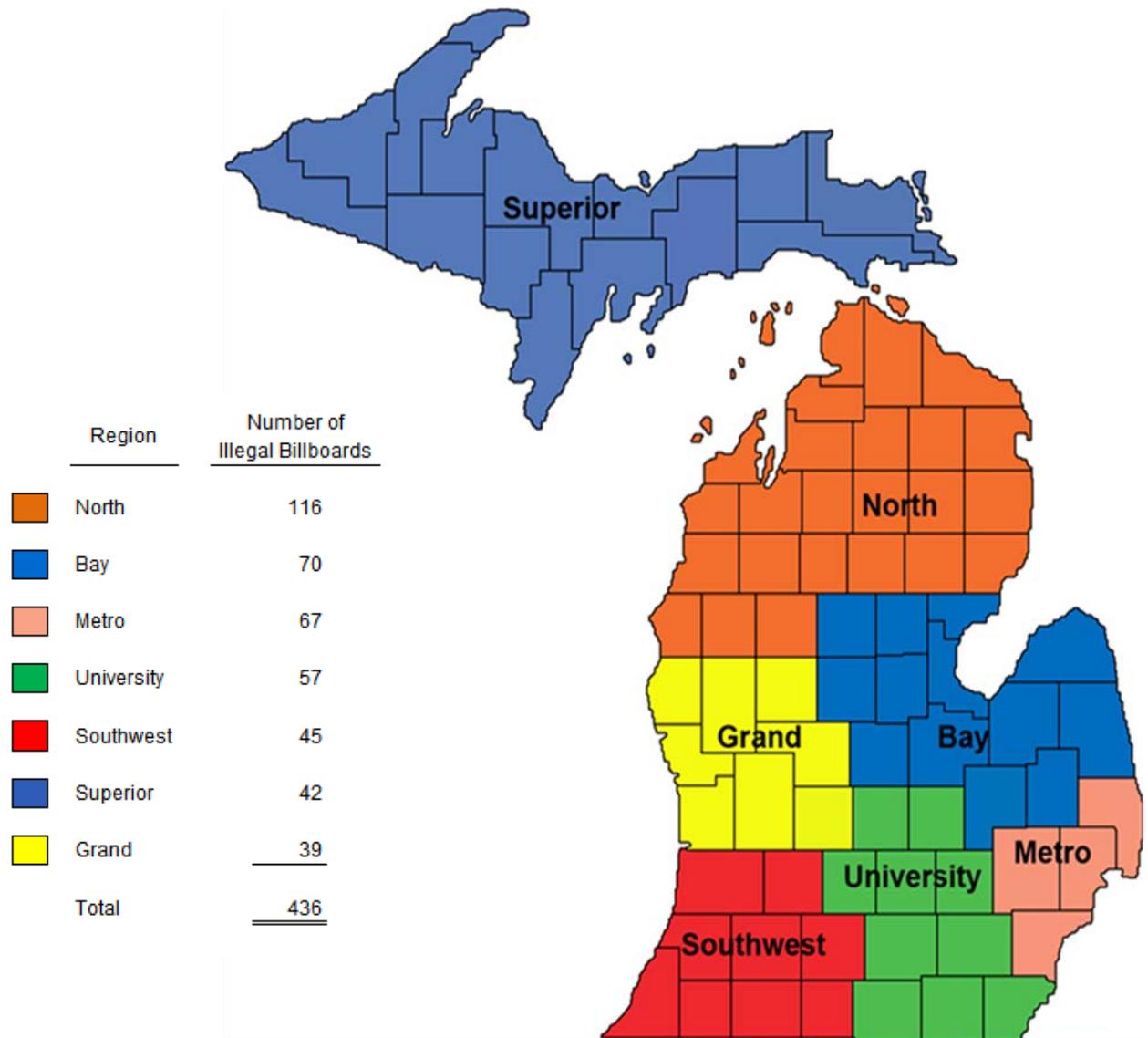
Billboard Permit Billings
Fiscal Year 2013

Permit Activity	Number of		Renewal Amount	Penalty Amount
	Accounts	Permits		
Renewal	1,538	14,406	\$ 909,559	\$ 0
Penalty	559	2,715	\$ 173,428	\$ 54,300
60-day violation	365	761	\$ 0	\$ 0
Request for hearing	43	75	\$ 0	\$ 0

Source: MDOT's Utility Coordination and Permit Section.

TRANSPORT, CONSTRUCTION, BILLBOARD, AND JUNKYARD PERMITTING ACTIVITIES
Michigan Department of Transportation (MDOT)

Reported Illegal Billboards
For Fiscal Year 2013



Source: MDOT's Utility Coordination and Permit Section.

TRANSPORT, CONSTRUCTION, BILLBOARD, AND JUNKYARD PERMITTING ACTIVITIES

Michigan Department of Transportation (MDOT)

Transport, Billboard, and Junkyard Permit Fees
For Fiscal Year 2014

Transport Permit Fees

Transporting oversize (but legal in weight)

Single trip permit	\$	15.00
Extended permit fees	\$	30.00

Transporting overweight and/or oversize

Single trip permit	\$	50.00
Extended permit fees	\$	100.00

Fees were last revised July 8, 1998 according to Act 300, P.A. 1949.
Extended permit fees were prorated on a month-to-month basis.

Billboard Permit Fees

Permit Fees

Billboard permit application fee	\$	100
Digital billboard permit fee	\$	200
Transfer fee per billboard	\$	100

Renewal Fees

300 square feet and under	\$	50
301 square feet and above	\$	80
Digital billboard permit renewal fee	\$	200
Religious and service club sign		No charge

Fees were last revised January 1, 2007 according to Act 106, P.A.1972.

MDOT has not issued permits for new signs since January 1, 2007.

To obtain a permit, one would need to purchase it from an existing permit holder.

Digital billboard permits were added January 30, 2014.

Junkyard Permit Fees

There were no fees charged for junkyard permits.

Source: MDOT's Utility Coordination and Permit Section.

TRANSPORT, CONSTRUCTION, BILLBOARD, AND JUNKYARD PERMITTING ACTIVITIES
Michigan Department of Transportation (MDOT)

Average Days to Approve or Deny a Construction Permit Per Transportation Service Center (TSC)
For Fiscal Years 2012 and 2013

<u>TSC</u>	<u>Average Days to Approve/Deny Construction Permits*</u>	<u>Total Permits Processed</u>
Alpena	12.8	274
Bay City	17.4	284
Brighton	28.7	419
Cadillac	12.5	231
Coloma	8.7	448
Crystal Falls	21.9	192
Davison	12.4	457
Detroit	61.4	410
Gaylord	17.3	344
Grand Rapids	24.1	734
Ishpeming	19.5	255
Jackson	16.2	293
Kalamazoo	13.6	490
Lansing	21.0	551
Macomb/St.Clair	10.8	438
Marshall	13.2	409
Mount Pleasant	16.6	440
Muskegon	10.6	331
Newberry	47.5	182
Southfield	10.2	488
Taylor	22.4	386
Traverse City	10.8	438
Annual permits	8.4	1,169
Permits that could not be identified with a TSC		421
Total permits processed		<u>10,084</u>

* The average days to approve/deny construction permits is calculated from the time that the permit is submitted until the time it is approved or denied, less the total days that a permit is the responsibility of the applicant. A construction permit is approved when all documentation has been collected, reviewed, and identified as being completed by an MDOT engineer.

Source: Office of the Auditor General staff prepared this exhibit based on information from the Construction Permit System (CPS).

AGENCY DESCRIPTION

The Utility Coordination and Permit Section, within MDOT's Development Services Division, Bureau of Highway Development, consists of two units: the Transport Permits Unit and the Construction and Highway Advertising Permits Unit.

Funding for the Section is appropriated through the State Trunkline Fund, and the fees collected for the issuance of permits are deposited into the State Trunkline Fund.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

Our audit scope was to examine the Michigan Department of Transportation's program and other records related to transport, construction, billboard, and junkyard permitting activities. We conducted this performance audit* in accordance with generally accepted 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.

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, 2011 through July 31, 2014.

METHODOLOGY

We conducted a preliminary survey to obtain an understanding of MDOT's transport, construction, billboard, and junkyard permitting operations in order to establish our audit objectives and methodology. As part of our preliminary survey, we:

- Interviewed MDOT management and program staff to gain an understanding of how permit applications were approved, issued, and monitored.
- Reviewed applicable laws, regulations, policies, and procedures to identify compliance standards to measure MDOT's performance.
- Visited five TSCs to gain an understanding of how these TSCs are involved in the permitting process.

OBJECTIVE #1

To assess the effectiveness of MDOT's efforts to ensure that fees associated with the issuance and monitoring of permits recover related costs.

To accomplish our first objective, we:

- Identified and reviewed MDOT's permit fees for transport, construction, billboard, and junkyard permits (see Exhibit 2 and Exhibit 5).
- Interviewed MDOT staff to determine if MDOT had analyzed the cost of issuing transport, construction, billboard, or junkyard permits in the last five years.

* See glossary at end of report for definition.

- Reviewed MDOT's analysis of the amount of time it takes staff to process transport, construction, and billboard permits.
- Reviewed MDOT's expenditures by type of permit for fiscal years 2012 and 2013.
- Reviewed MDOT's analysis of the labor costs associated with transport and construction permits.
- Calculated the cost of processing and monitoring transport, construction, and billboard permits.
- Compared costs associated with processing and monitoring permits with the fees charged to determine if MDOT recovered the operational costs related to transport, construction, and billboard permits.
- Compared Michigan's permit fee rates with those of other states.

OBJECTIVE #2

To assess the effectiveness of MDOT's efforts to issue permits.

To accomplish our second objective, we:

- Interviewed Section and TSC staff to gain an understanding of the activities involved with processing permit applications.
- Reviewed MDOT operating policies and procedures to identify the steps involved with processing permit applications.
- Reviewed a sample of transport, construction, and billboard permits to determine if the permits were processed on a timely basis, properly approved, and billed correctly and if the permits included the appropriate level of surety or insurance.
- Analyzed the average days that TSCs used to review and approve construction permits.
- Reviewed the number of MDOT construction permits compared with those used by neighboring states.

OBJECTIVE #3

To assess the effectiveness of MDOT's efforts to oversee permit-related compliance activities.

To accomplish our third objective, we:

- Reviewed a random sample of 15 of the 129 road restrictions that were in place on July 10, 2014 to determine if the restriction was entered into MiTrip prior to the date the restriction became effective.
- Reviewed the population of construction permits that MDOT staff had approved between October 1, 2011 and September 30, 2013 to determine if MDOT had completed and documented its review of the project in accordance with CPPDOM procedures 1502.01 and 1502.11.
- Reviewed the population of construction permits that MDOT had closed between October 1, 2011 and September 30, 2013 to determine if MDOT had completed and documented an inspection of the project in accordance with CPPDOM procedure 1502.01.
- Reviewed the population of construction permits that were submitted and closed between October 1, 2011 and September 30, 2013 to determine if the permit holder provided advance notice of construction in accordance with CPPDOM procedures 1502.01 and 1502.11.
- Reviewed task requests associated with CPS to ensure that MDOT was pursuing the correction of known defects in CPS through the Department of Technology, Management, and Budget.
- Reviewed MDOT's efforts to complete an annual inventory of billboards in compliance with MDOT Highway Advertising Procedure and Desk Operating Manuals procedure 1605.11.
- Reviewed a judgmental sample of 62 billboards to determine if information contained within IHAP matched billboard field conditions.
- Reviewed MDOT's effort to maintain a current inventory of junkyards in compliance with *Michigan Administrative Code R 247.102*.

OBJECTIVE #4

To assess the effectiveness of MDOT's efforts to control access to and monitor usage of the computer systems used to process permitting activities.

To accomplish our fourth objective, we:

- Interviewed MDOT staff responsible for MiTrip, CPS, and IHAP.
- Reviewed operating procedures to identify the controls to monitor and secure the various software systems.
- Reviewed the controls that MDOT utilized to provide and eliminate access to the various software systems used to manage permitting activities.
- Reviewed user access to the various software systems used to manage permitting activities to determine if MDOT provided individuals with the appropriate levels of access based on their positions' responsibilities.
- Reviewed the listing of users with access to the various software systems used to manage permitting activities to determine if the users warranted access to the systems.

CONCLUSIONS

We based our conclusions on our audit efforts as described in the preceding paragraphs and the resulting reportable conditions* noted in the background, findings, recommendations, and observation section. The reportable conditions are less severe than a material condition* but represent deficiencies in internal control* or opportunities for improvement.

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.

AGENCY RESPONSES

Our audit report contains 7 findings and 7 corresponding recommendations. MDOT's preliminary response indicates that it agrees with 5 and disagrees with 2 of the 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.

* See glossary at end of report for definition.

**PRIOR AUDIT
FOLLOW-UP**

We released our prior performance audit of the Real Estate Division, Bureau of Highway Development, Michigan Department of Transportation (591-0172-10), in March 2011. Within the scope of this audit, we followed up 3 of the 5 prior audit recommendations. MDOT complied with 2 of the 3 recommendations. We rewrote 1 prior audit recommendation for inclusion in Observation #1 of this audit report.

**SUPPLEMENTAL
INFORMATION**

As part of our audit, we prepared supplemental information using unaudited data obtained from MDOT and other sources (Exhibits 1 through 6). Our audit was not directed toward expressing an opinion on this information.

GLOSSARY OF ABBREVIATIONS AND TERMS

annual construction permit	An instrument that enables public utilities, local government agencies, and other organizations recognized by MDOT to perform routing activities within the State highway right-of-way in a given calendar year.
billboard permit	Written authorization to display a sign adjacent to a road, highway, or freeway that is separate from a premise that was erected for the purposes of advertising a product, event, person, or subject not related to the premises in which the sign is located.
CPPDOM	Construction Permit Procedure and Desk Operating Manuals.
CPS	Construction Permit System.
construction permit	Written authorization to complete construction activities within the right-of-way for roadways under MDOT's jurisdiction.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
goal	An intended outcome of a program or an entity to accomplish its mission.
IHAP	Internet Highway Advertising Program.
illegal billboards	A sign not in compliance with the provisions of Act 106, P.A. 1972. These include signs that are not permitted.
individual construction permit	An instrument that allows for construction activities to occur within the State highway right-of-way by individuals other than MDOT personnel, local agency contract staff, or contractors working under the direction of MDOT.

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.
junkyard	An establishment or place of business that is maintained, operated, or used for storing, keeping, buying, or selling junk, or for the maintenance or operation of an automobile graveyard, and shall include garbage dumps and sanitary fills.
junkyard permit	Written authorization to establish, operate, or maintain a junkyard in areas adjacent to interstates or primary secondary highways within the State.
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.
MDOT	Michigan Department of Transportation.
MiTrip	Michigan Transport Routing and Internet Permitting System.
National Highway System (NHS)	A system that includes the Interstate Highway System as well as other roads important to the nation's economy, defense, and mobility. NHS was developed by the U.S. Department of Transportation in cooperation with the states, local officials, and metropolitan planning organizations.
objective	Specific outcome(s) that a program or an entity seeks to achieve its goals.
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.

performance measure	A composite of key indicators of a program's or an activity's inputs, outputs, outcomes, productivity, timeliness, and/or quality. Performance measures are a means of evaluating policies and programs by measuring results against agreed upon program goals or standards.
performance standard	A desired level of output or outcome.
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.
Section	Utility Coordination and Permit Section.
SSO	Single Sign On.
State trunkline	The network of road types (interstate, Michigan, and U.S. routes) that supports the State's commercial activities.
superloads	Loads that exceed the normal permit limits for over-width, over-height, and over-length items or equipment. A superload is a permitted load that exceeds 16 feet in width, 15 feet in loaded height, and/or 150 feet in overall length.
TSC	transportation service center.
transport permit	Written authorization that allows an applicant to operate upon or remove from a highway maintained by the State a vehicle or combination of vehicles whose size, weight, or load exceeds the maximum specified by State statute.

