

State of Rhode Island and Providence Plantations

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June 6, 2014

Mr. Michael P. Lewis  
Director  
Department of Transportation  
Two Capitol Hill  
Providence, RI 02903

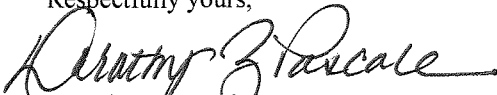
Dear Director Lewis:

The Bureau of Audits has completed its audit of Department of Transportation's management of the Outdoor Advertising program. Our audit scope was limited to activity recorded during calendar years 2012 and 2013. The audit was conducted in accordance with Rhode Island General Laws (RIGL) §35-7-3. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

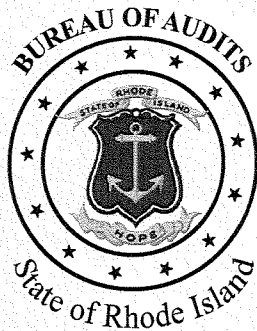
RIGL §35-7-3(b), entitled *Audits performed by bureau of audits*, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency, or private entity audited shall respond in writing to each recommendation made in the final audit report." Accordingly, management submitted its response to the audit findings and recommendations on June 5, 2014, and such response is included in this report. Pursuant to this statute, the Bureau may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the Property Management unit of the Highway and Bridge Maintenance Division staff for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,

  
Dorothy Z. Pascale, CPA, CFF  
Chief

c-Richard A. Licht, Director, Department of Administration  
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance  
Honorable Raymond Gallison, Chairperson, House Finance Committee  
Dennis Hoyle, CPA, Auditor General  
Peter Marino, Director, Office of Management and Budget  
Robert Shawver, Administrator, Department of Transportation  
Robert Farley Jr., Associate Director, Department of Transportation



## **AUDIT Executive Summary**

### **Why the Bureau Did This Review**

As a result of the annual risk assessment completed by the Bureau of Audits and input from the Department, an audit of the Outdoor Advertising program managed by the Department of Transportation was performed. This audit was conducted to determine if the program is operating efficiently and effectively in accordance with applicable statutes and state procedures, and with adequate controls to ensure safeguarding of assets and accurate reporting.

### **Background Information**

The Property Management Unit of the RIDOT Division of Highway and Bridge Maintenance administers and manages the Outdoor Advertising program. This unit is responsible to monitor outdoor advertising located near state and federal highways and enforce compliance with state and federal laws. Management of this program mainly includes monitoring permit renewals of existing structures and verifying that no new structures are erected in the State unless defined as an exception under Rhode Island General law §24-10.1-3 *Limitations of outdoor advertising*.

### **To Improve Controls, the Bureau of Audits Recommends:**

- **Maintain complete permit documentation**
  - **Adequate proof of land ownership and/or control**
  - **Appropriate proof of ownership of the outdoor advertising structure**
  
- **Ensure Timely Payments**
  - **Requiring and enforcing compliance with existing payment terms**

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## Objective and Scope

The Bureau of Audits (Bureau) conducted a limited scope audit of the Department of Transportation's (RIDOT's) management and administration of the Outdoor Advertising program, within the Highway and Bridge Maintenance Division, Property Management Unit. The purpose of this engagement was to determine if the program is operating efficiently and effectively in accordance with applicable statutes and state procedures and with adequate controls to ensure safeguarding of assets and accurate reporting.

## Methodology

As part of our audit work, we gained an understanding of the existing controls over the Outdoor Advertising program. To address our audit objective, we performed the following:

- Interviewed Property Management staff.
- Reviewed applicable state and federal laws, regulations, and department policies.
- Gained an understanding of the procedures governing the management and administration of the Outdoor Advertising program.
- Tested a sample of Outdoor Advertising renewal documentation for calendar year 2013.

## Introduction

The Property Management Unit of the Division of Highway and Bridge Maintenance within RIDOT includes management of the Outdoor Advertising program. This unit is responsible to monitor outdoor advertising located near state and federal highways for compliance with applicable state and federal laws. Management of this program mainly includes monitoring permit renewals of existing structures and verifying that no new structures are erected in the state unless defined as an exception under Rhode Island General Law §24-10.1-3, *Limitations of outdoor advertising*.

## Recommendations for Improved Controls

### Maintain Additional Information for Outdoor Advertising Sign Permits

The sign permit process documentation required by the *RI Rules and Regulations for Outdoor Advertising* is incomplete.

The RIDOT Outdoor Advertising Rules and Regulations, Section XIII *Permit Process*, states that the following items shall be required for the permit application process:

- a) *written proof of legal control through the calendar year and/or ownership of the real property [footprint of the sign] upon which the sign is located [i.e., lease, rental agreement, deed, etc.];*
- b) *written proof of legal control through the calendar year and/or ownership of the sign [i.e., lease, rental agreement, bill of sale];*
- c) *written proof of insurance with language indemnifying and naming the State of Rhode Island as co-insured where applicable [if the sign is located on State-owned property];*
- d) *name and address of the present legal owner of the real property on which the sign is located;*
- e) *Assessor's Plat and Lot Number of the real property upon which the sign is located;*
- f) *name and address of the present sign owner.*

Further, per the regulations and the permit application instructions, proof of ownership or control of the structure must be provided; if a written agreement between the property owner and structure owner does not exist, an affidavit must be signed by the property owner and the structure owner attesting they have a non-written agreement. The renewal application states:

*No permit will be issued unless such an agreement is in force or an affidavit is attached to the application.*

In addition, Federal Highway Administration Policy - *Outdoor Advertising, Policy and Guidance*, states that that sign inventory is essential for the program because it serves as the fundamental control document and should include an accurate accounting of all relevant data for each sign.

The Bureau noted that no proof of land ownership was provided for 16 out of 24 permits tested. Other permits that provided proof of ownership are outdated; there is no documentation to support verification of ownership verification. Additionally, the Bureau found two instances where the land owner identified in the database did not match the file documents or the tax assessor website.

One advertising vendor "controls" the majority of the outdoor advertising structures. This vendor has provided Lease Agreements; however, the majority of the information is redacted, including the years of the lease term. It was also noted that the advertising vendor signed an affidavit noting they have control of the structure, but nothing is signed by the property owner. The application requires the property owner's signature. The Bureau finds the previously mentioned documentation is not sufficient support for control of the structure.

The Bureau noted that there was a lack of adequate oversight of the outdoor advertising permit application process due, in part, to personnel and staffing issues. This has resulted in insufficient documentation and non-compliance with the RIDOT Rules and Regulation.

**Recommendation:**

1. Ensure that permit information used for monitoring, reporting, and approving permit renewal bills is accurate and maintained in accordance with program rules and regulations. All permit file documentation should include:
  - Adequate proof of land ownership and control or ownership of the structure.
  - Updated affidavits which are signed by the appropriate land owner, in addition to the permit holder, if they are not the same
  - All non-confidential information should be included (i.e., length of lease, items causing lease to terminate) and only confidential information should be redacted (i.e., financial information, payment information), when the applicant includes a copy of a lease as support of control.

**Management Response:** A new template will be designed providing for the verification of Outdoor Advertising Permit particulars. Land owners, whose property is the site of the permitted outdoor advertising, will be required to sign the form in addition to the permit holder.

**Anticipated Completion Date:** August 1, 2014

**Contact Person:** Ms. Ann Hollands & Mr. Paul Carcieri

**Ensure Outdoor Advertising Permit Renewal Fees Are Paid Timely**

Annually, the outdoor advertising real estate specialist prepares a listing of permits. This list is submitted to the RIDOT Financial Management Unit to perform the annual renewal billing and fee collection process. The Outdoor Advertising Permit Renewal Application states that the renewal application and associated fee are due by February 1 for the calendar year of the permit. Our testing revealed RIDOT is not collecting the majority of permit renewal fees that support the program operation in a timely fashion and in accordance with the rules and regulations. See chart below.

# Vendors Paid Late	Total Billed	Payments Remitted Past Due	# Days Late	% Late
<b>Calendar Year 2013</b>				
1	\$ 193,650	\$ 168,800	90+	87%
<b>Calendar Year 2012</b>				
1	\$ 209,200	\$ 171,900	90+	82%

*Note: Same vendor for each year*

RIDOT has not been able to get this one vendor to pay by the required date. RIDOT has the right to revoke permits should there be noncompliance with the rules and regulations; however, they have not exercised this right to date. Further the rules and regulations do not stipulate late fee penalties which would help enforce timely payments.

#### Late Fee Assessment

Through review of other state outdoor advertising programs online, it was noted that numerous states require a late payment penalty for bills not paid timely.

The Bureau noted that the Rhode Island Department of Business Regulations, Division of Commercial Licensing & Racing & Athletics Division, Rule 445(d) assesses a late fee on applications submitted after the expiration date of 10 percent of the license fee but not less than \$25. Also, the Rhode Island Department of Health has late fees ranging from approximately one-third of the renewal fee to 100 percent of the renewal fee, depending on the license type. Should RIDOT implement the same late fee structure as the Rhode Island Department of Business Regulations, Commercial Licensing & Racing & Athletics Division, the late fee for the one advertising vendor noted above would be \$16,950 for calendar year 2013.

#### **Recommendations:**

2. Amend rules to allow for the assessment of penalties for late filing and payment.
3. Ensure that all payments for Outdoor Advertising permit renewals are received in a timely manner in accordance with program requirements through the use of revocation of permits or late fee penalties, if permitted.

**Management Responses:** We have taken under advisement the recommendation that RIDOT charge late fees for the untimely return of Outdoor Advertising Permit Applications. We will confer with in-house legal counsel to determine if RIDOT is empowered under current State law to implement late fees and, if so, what constitutes reasonable charges.

**Anticipated Completion Date:** September 26, 2014

**Contact Person:** Ms. Ann Hollands & Mr. Paul Carcieri