

**AGENCIES OF THE SECRETARY
OF TRANSPORTATION**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2009**



AUDIT SUMMARY

This report discusses the financial activities and performance of seven agencies reporting to the Secretary of Transportation, which are:

- Department of Motor Vehicles (DMV)
- Department of Transportation (VDOT)
- Department of Rail and Public Transportation (DRPT)
- Department of Aviation (DOAV)
- Motor Vehicle Dealer Board (MVDB)
- Board of Towing and Recovery Operations (BTRO)
- Virginia Port Authority – the Port Authority issues a separate Comprehensive Annual Financial Report on which we provide an independent auditor’s opinion and provide a separate Independent Auditor’s Report on Internal Control, Compliance and Other Matters.

The Secretary of Transportation oversees these agencies that provide services which support land, air, and water transportation in the Commonwealth. Agency responsibilities include collecting revenues from taxes, licenses, and vehicle registrations to fund operations; developing and maintaining highways, ports, and airports; and assisting in the development of private and local rail and mass transportation, highways, ports, and airports.

Our audit for the year ended June 30, 2009, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and in each agency’s accounting records;
- an instance of noncompliance with applicable laws and regulations required to be reported under Government Auditing Standards; and
- certain matters involving internal controls that we consider significant deficiencies requiring management’s attention and corrective action; these are included in the section entitled “Internal Control and Compliance Findings and Recommendations” starting on page one.

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INTERNAL CONTROL AND COMPLIANCE **FINDINGS AND RECOMMENDATIONS**

DEPARTMENT OF MOTOR VEHICLES

Improve Information System Security Program

The Department of Motor Vehicles does not store certain sensitive data on encrypted computers and does not encrypt sensitive data that it shares with some organizations outside Virginia state government. We also found that the Department does not require password complexity on some systems that contain sensitive data.

To avoid possible data breaches, the Department should encrypt sensitive data stored on desktop and laptop computers or portable media. The Commonwealth's security standard, and the Department's own security policy, requires employees to encrypt this type of sensitive data by whole hard disk encryption or file encryption on portable media. However, we found that the Department's employees are not following these requirements.

Strong password management procedures are also important to reduce the risk of possible unauthorized access and alteration. We found that the Department stores sensitive data on one system without any specific password requirements, and on another system we found that several password parameters are inappropriately set.

We have communicated the details of these recommendations to the Department in a separate document. It is communicated separately because it contains the descriptions of a security system, and is Freedom of Information Act exempt by the Code of Virginia.

We recommend that the Department enforce its own policy to encrypt sensitive data stored on desktops, laptops, or portable media. The Department should also review and improve its sensitive data sharing agreements with non-state government organizations. These agreements should clearly state the expectations of how the outside organizations transmit and store the Commonwealth's sensitive data. Finally, the Department should review and ensure its documented password requirements meet the Commonwealth's security standards and that all systems conform to these requirements.

COMMONWEALTH TRANSPORTATION FUND

This report includes the financial activities of the Commonwealth Transportation Fund which support land, air, and water transportation in the Commonwealth. The report includes all agencies reporting to the Secretary of Transportation: the Departments of Transportation (VDOT), Motor Vehicles (DMV), Rail and Public Transportation (DRPT), and Aviation (DOAV), the Motor Vehicle Dealer Board (MVDB), the Board of Towing and Recovery Operations, and the Virginia Port Authority. These seven agencies employ over 10,000 people and spent a combined \$4.1 billion in the year ending June 30, 2009.

The Agencies of the Secretary of Transportation oversee land, air, and water transportation in the Commonwealth. Their responsibilities include collecting revenues from taxes, licenses, and vehicle registrations to fund operations; developing and maintaining highways, ports, and airports; and assisting in the development of private and local rail, mass transportation, highways, airports, and ports. In addition to reporting to the Secretary of Transportation, VDOT and DRPT also report to the Commonwealth Transportation Board (the Board) who provides direction and review of statewide transportation projects.

This report presents highlights of current subject matter for each of the transportation agencies during fiscal year 2009 and a summary of financial information.

AGENCY HIGHLIGHTS

DEPARTMENT OF MOTOR VEHICLES

DMV's mission is to promote security, safety, and service through the administration of motor vehicle and tax-related laws. Administration of motor vehicles includes but is not limited to driver licensing services; vehicle registration services; disabled parking placards; hauling permits; motor carrier permits and inspections; and record services. DMV also administers commercial fuels tax collection. To perform these and other services, DMV provides numerous customer service centers throughout the Commonwealth and Internet web site services; all are supported by over 2,000 employees at a cost to the Commonwealth of \$251.9 million, including transfers to localities, during the year ending June 30, 2009.

Centralized Licensing

In February 2008, DMV signed a seven-year \$47 million contract with Canadian Bank Note (CBN) to produce for the Commonwealth a new and more secure identification card, including driver's licenses. CBN built a facility in Danville, VA, to produce the licenses centrally. DMV customer service centers no longer produce licenses; instead, the centers securely transmit the pictures and information to the CBN facility for printing and mailing directly to the customer from the facility in Danville.

The new licenses have increased security features making it very difficult to commit fraud. This project also supports compliance with the REAL ID Act set forth by the federal government. Commonwealth citizens continue to receive a new license upon expiration of the current license.

Integrated Systems Redesign

DMV has been working for many years on replacing their aging Citizen Services System (CSS), which houses vehicle and driver data for every citizen of the Commonwealth. They have coined the name CSI which embodies their goals: Customer-Centric; Secure, Service-Oriented, State-of-the-art; and Intelligent.

In February, 2009 DMV awarded a contract to SAIC, with 3M as their subcontractor, for detailed design, development and implementation activities. However, after a detailed evaluation of 3M's framework, DMV determined that the framework as it exists today could not serve as the foundation for the CSI solution without significant modifications to comply with the Commonwealth's architecture standards. DMV relied on SAIC's RFP response stating that their proposal would comply with Commonwealth standards. After spending \$1.6 million toward the preliminary design of the system, DMV reached a mutual decision with SAIC to terminate the contract on October 2, 2009.

Using the initial design documents created in collaboration with SAIC, DMV began to restructure their approach to the project. DMV reduced the original scope by removing development and implementation activities as part of the new project. The current project effort, which includes only design activities, will produce the conceptual architecture for inclusion in a new RFP, and internal resources and minimal staff augmentation are performing the work. Gartner is providing assistance to help refine and validate the design to ensure it conforms to industry standards and best practices.

DMV plans to outsource the development and implementation of the project through a competitive bidding process. DMV will seek planning approval from the CIO in early 2010. DMV expects to release a request for proposals in March 2010 and anticipates awarding a contract before the end of 2010.

DEPARTMENT OF TRANSPORTATION

VDOT builds, maintains, and operates the Commonwealth's roads, bridges, and tunnels. Virginia has one of the largest state-maintained highway systems in the United States, spending \$3.3 billion annually. VDOT maintains over 57,000 miles of interstate, primary, and secondary roads and distributes state funds to help maintain over 10,000 miles of urban streets. VDOT not only maintains roads, but also maintains more than 12,600 bridges, four underwater tunnels, two mountain tunnels, one toll road, one toll bridge, four ferry services, and a number of rest areas and commuter parking lots. VDOT has reduced its employment levels from over 9,000 employees in June, 2008 to just over 8,000 in June, 2009 in order to reduce costs and streamline operations. VDOT expects to be down to 7,500 employees by June 30, 2010, but is still one of the largest agencies in the Commonwealth.

Public-Private Partnerships

VDOT has been engaged in public-private partnership agreements since shortly after the inception of the Public-Private Transportation Act of 1995 (PPTA). Public-private partnership agreements have become more prevalent in recent years as VDOT faces flattening and eventually declining revenues for construction. The intent of the PPTA legislation is to have the Commonwealth and private sector act as partners, sharing the risk of completing transportation projects on-time and on-budget as both parties would have an equally vested interest. There are a number of these partnership agreements in various stages of development, but the largest two are in Northern Virginia, and below is a summary of these projects.

Route 495 HOT Lanes

VDOT has contracted with Fluor-Transurban to design, construct, maintain, and operate two additional lanes in each direction on Interstate 495 between the Springfield Interchange and just north of the Dulles Toll Road. High-occupancy vehicles, buses, motorcycles, and emergency vehicles can use these lanes free of charge; however, vehicles carrying one or two people may also use the lanes, but will pay a toll to do so. Additionally, toll rates will change according to traffic conditions to regulate demand for the lanes and keep them moving freely.

This project, already under construction, has a unique financing arrangement. The state will invest \$409 million in the completion of the project, while Fluor-Transurban will invest \$349 million in private equity, \$586 million in private activity bonds, and \$585 million from a Federal Highway Administration TIFIA loan. Fluor-Transurban will retain the rights to toll revenues to fund maintenance and future improvements, as well as the debt service to construct the lanes for an operating period of 75 years. The project has a scheduled completion for 2013 at a total project cost of \$1.9 billion.

Route 95/395 HOT Lanes

VDOT has an interim agreement with Fluor-Transurban to design, construct, maintain, and operate similar HOT Lanes on the 56-mile stretch of Interstate 95 from Fredericksburg to Interstate 395 ending at the Pentagon. These would be reversible lanes, northbound in the morning, and

southbound in the evening and similar to the 495 HOT Lanes, available for high occupancy vehicles and motorcycles for no fee and all other vehicles will pay a toll based on demand.

During the preliminary phase of this project, VDOT is paying 50 percent of planning and environmental compliance costs. Once VDOT and Fluor-Transurban reach a comprehensive agreement, Fluor-Transurban will reimburse VDOT for these expenses. Fluor-Transurban and VDOT could not reach a comprehensive agreement for the construction and financing of this project by the originally planned date of August 2009. VDOT cited an inability for the two parties to reach agreement due to local government and community concerns and the inability for Fluor-Transurban to secure the credit necessary to fund the project. VDOT does not have an estimated date for signing a comprehensive agreement at this time.

Dulles Toll Road Sale

On December 26, 2006, VDOT signed an agreement with the Metropolitan Washington Airports Authority (Authority) to transfer the control and operations of the Dulles Toll Road to the Authority. The terms of the agreement transferred the rights to operate the Dulles Toll Road from VDOT to the Authority for a 50-year term in consideration of the Authority's agreement to repay or defease all of the outstanding bonds relating to financing the construction and maintenance of the toll road and to pay off the outstanding \$4.3 million note issued by the Virginia State Highway and Transportation Commission in favor of Fairfax County.

The Authority must use the toll revenues to fund the Dulles Corridor Metrorail project and other transportation improvements in the Dulles Corridor. The final transfer of operations occurred on November 1, 2008. Prior to the effective date of this transition, the Authority paid off the outstanding note to Fairfax County in full and transferred the funding to the Department of the Treasury to fund an escrow for the defeasance of the outstanding bonds (Series 1989A and Series 2002). The report discusses the Dulles Metrorail Project in more detail later.

Financial Management System Replacement

In April 2008, VDOT received the Information Technology Investment Board's (ITIB) approval to begin development of their financial management system. The project will result in a new financial management system for VDOT while also providing a base enterprise application for the Commonwealth. The Commonwealth's base application will include general ledger and accounts payable and essentially replace the current Commonwealth Accounting and Reporting System (CARS). VDOT's system will expand beyond the base general ledger and accounts payable provided to the Commonwealth to include functionality such as accounts receivable, project accounting, and time entry. VDOT estimated the system will cost about \$38 million, including software and expert systems implementation services, and anticipates completion by June 2012.

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

DRPT is primarily responsible for determining the present and future needs for rail and public transportation throughout the Commonwealth. This task also includes: economic feasibility of providing public transportation; transportation demand management; ridesharing facilities and services; and the retention, improvement, and addition of passenger and freight rail transportation in the Commonwealth. They accomplish this by developing and implementing programs; coordinating research, planning, and policy analysis efforts with Transportation; and developing standards to evaluate all public transportation activities in the Commonwealth.

Additionally, DRPT maintains liaisons with state, local, district, and federal agencies or other entities, private and public, having comparable responsibilities for passenger and freight rail, transportation demand management, ridesharing, and public transportation programs at various service levels. This includes coordinating efforts with other entities and managing public, freight rail, and passenger transportation grant programs.

Dulles Metrorail Project

On June 28, 2007, the Commonwealth signed a Memorandum of Agreement with the Metropolitan Washington Airports Authority (Authority) to complete the Dulles Corridor Metrorail Project. Since the signing of that agreement, DRPT made monthly payments of toll revenues to the Authority upon request to fund the continued design and construction of the project.

With VDOT's sale of the Dulles Toll Road to the Authority, the Commonwealth no longer has to remit payments to the Authority to fund the Metrorail Extension project. All revenues generated by the Dulles Toll Road are to support transportation improvements within the corridor, including the Metrorail extension and roadway improvements.

However, in the 2009 Transportation Six Year Improvement Program, the Commonwealth Transportation Board approved an additional allocation of \$200 million to the Metrorail Extension project. The Board would issue \$125 million in mass transit capital bonds as well as allocate \$75 million from the interstate maintenance and surface transportation programs over the 2009 through 2012 fiscal years.

The Board has not yet issued the capital bonds necessary to fulfill the commitment made to the Authority in its Six Year Improvement Program. Although the Board has not issued bonds, DRPT honored the commitment by paying the Authority \$50 million, which was loaned from VDOT's highway construction fund and \$23.6 million from the Transportation Set-Aside Fund. The Board will repay these amounts to their respective funds when they issue the capital bonds. VDOT expects the Board to issue the bonds in the spring of 2010.

DEPARTMENT OF AVIATION

DOAV plans and promotes air transportation in the Commonwealth; licenses aircraft and airports; and funds local airport planning, development, and improvements. DOAV consists of the Director's Office and four divisions: Airport Services, Communication and Education, Flight Operations and Safety, and Finance and Administration. DOAV provides financial and technical assistance to eligible sponsors for the planning, development, promotion, construction, and operation of airports and aviation facilities. It administers applicable provisions of the Code of Virginia and plans for the development of a state aviation system – airports and landing areas. DOAV also provides air transportation services to the Governor, the Legislature, and state agencies.

MOTOR VEHICLE DEALER BOARD

The Motor Vehicle Dealer Board (MVDB) regulates motor vehicle dealers and salespersons. The Board's regulatory powers and responsibilities include testing, issuing licenses and certificates to dealers and salespersons, developing regulations, conducting inspections, and responding to complaints concerning licensed dealers and salespersons. MVDB can invoke disciplinary actions including, but not limited to, revoking licenses or certifications and assessing civil penalties for regulatory violations.

The nineteen-member board governs operations and sets dealer and salesperson fees that support daily activities. The DMV Commissioner serves as Chairman and the Commissioner of Agriculture and Consumer Services also serves on the Board. The Governor appoints the remaining members who represent franchised and licensed dealers, the rental and salvage industry, and consumer interests.

BOARD OF TOWING AND RECOVERY OPERATORS

The 2006 Virginia Acts of Assembly created the Board of Towing and Recovery Operators (Board) to regulate the towing and recovery operation profession in the Commonwealth. The Governor appoints two members, the Speaker of the House of Delegates appoints four members, and the Senate Committee on Rules appoints three members. Additionally, the DMV Commissioner, Agriculture and Consumer Services Commissioner, State Police Superintendent, and three at-large citizens each appointed by the Governor, Speaker of the House of Delegates, and Senate Committee on Rules respectively serve on the Board.

The Board must establish the qualifications, examine, and grant licensure to individuals to engage in the towing and recovery operation business in the Commonwealth. The Board may also levy and collect fees for licensure and renewal in order to cover its expenses. The Board may also revoke, suspend, or fail to renew a license for violation of regulations.

VIRGINIA PORT AUTHORITY

The Port Authority is the Commonwealth's agency for international transportation and maritime commerce. The Port Authority's major activities are developing Virginia's ports through cargo solicitation and promotion throughout the world; developing water transportation facilities; maintaining ports, facilities, and services; providing public relations, and domestic and international advertising; and providing security services. To deliver these services, the Port Authority has offices in five cities in the United States and five foreign countries. A Board of Commissioners composed of 12 members manages the Port Authority. The Commonwealth Transportation Board only oversees the allocations to the Commonwealth Port Fund.

The Port Authority owns four general cargo terminals in Virginia that enable them to foster and stimulate the commerce of the Commonwealth ports. This includes promoting the shipment of goods and cargo through the ports, seeking to secure necessary improvements of navigable tidal waters within the Commonwealth, and performing any act or function that may be useful in developing, improving, or increasing the commerce, both foreign and domestic, of the Commonwealth's ports.

Since the Authority is a component unit of the Commonwealth, we have not included their financial activity in this report, but have issued a separate report on the financial statements of the Virginia Port Authority. Individuals may access this report through our website, www.apa.virginia.gov.

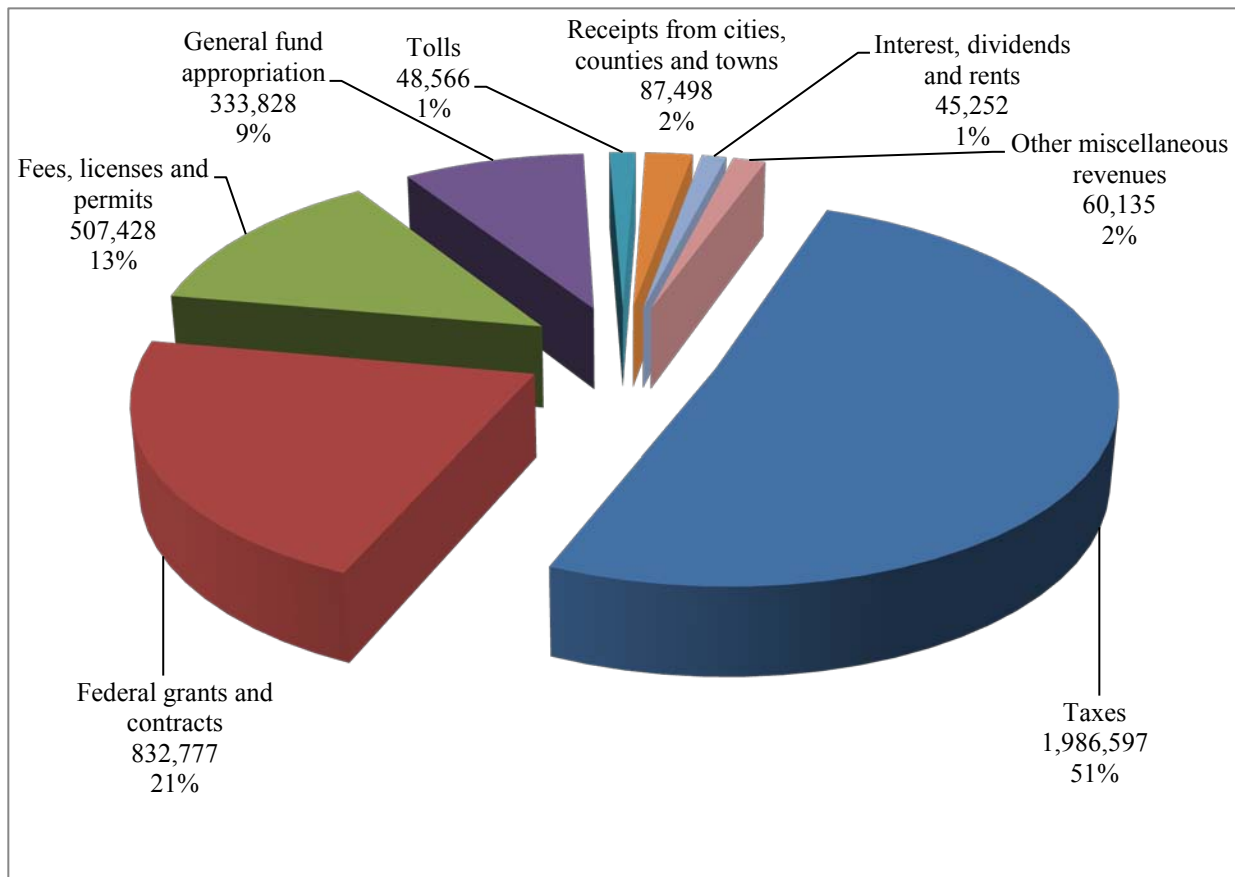
TRANSPORTATION FINANCE

Source of Funds

In general, the Commonwealth Transportation Fund (CTF) has four primary revenue sources, and the ability to issue debt, that supports the Commonwealth's transportation agencies and their activities. In fiscal year 2009, these sources generated \$3.4 billion in transportation funding (excluding Port Authority revenue). Transportation revenue decreased more than \$770 million from 2008 to 2009. Appendix A provides a comparative schedule of various transportation revenue sources from 2008 to 2009.

2009 CTF Revenue Sources
(dollars in thousands)

CHART A



*Other miscellaneous revenues include fines and assessments and sale of service, property, and recycling.
Source: Commonwealth Accounting and Reporting System

Taxes and Fees

The Commonwealth has specified certain revenue sources to fund transportation, such as fuels tax, motor carrier fees, and vehicle titling fees collected by DMV; and a half-cent state sales-and-use tax, which is dedicated to transportation needs and collected by the Department of Taxation.

DMV is the primary collector of funding to support transportation programs. DMV funds its operations by retaining a portion of revenues collected and obtaining federal grants for agency-specific programs. For fiscal 2009, total transportation taxes and fees were \$2.5 billion.

Federal Grants and Contracts

Federal transportation funds are the second major source of funding for Transportation agencies. These federal funds assist in providing for construction, reconstruction, improvement of highways and bridges on eligible federal highway routes, and for other specific purposes as awarded by the Federal Highway Administration of the Department of Transportation (FHWA). In fiscal 2009, federal transportation revenues were \$832.8 million or 19 percent of the total revenues allocated for transportation funding in the Commonwealth, compared to \$917.4 million (22.1 percent) in 2008.

The Federal-Aid Highway Program is a reimbursement program, and as such, the federal government only reimburses for costs actually incurred each year. Federal funding consists of two basic types: Highway Trust Funds (HTF) and earmarks. FHWA distributes HTF based on a formula established by the federal government. The HTF also contains other discretionary funds for Transportation and Rail and Public Transportation projects. On the other hand, earmarks are grants for specific amounts dedicated to specific programs or projects, but are still reimbursements of incurred costs. These grants generally require matching contributions by the Commonwealth to receive actual FHWA reimbursement.

FHWA allocates federal funds through apportionments. These apportionments act as lines of credit, and Transportation may draw upon these funds as it develops federally-assisted projects. Assignment of federal funds through apportionment occurs before Transportation submits actual expense reimbursement requests. Transportation must obligate projects to an apportionment within the normal four-year obligation period before apportionments expires. If apportionments expire, Transportation cannot use the funds. The federal legislation known as SAFETEA-LU (Safe, Accountable, Flexible, Efficient Transaction Equity Act – A Legacy for Users), passed in August 2005, governs the current apportionment of federal transportation dollars.

Bond Proceeds and Interest

VDOT also uses debt to finance roads and issues debt instruments in accordance with the Constitution of Virginia. Most of VDOT's debt has a dedicated revenue stream to pay debt services with a significant portion of debt secured by future federal reimbursements; known as Federal Highway Reimbursement Anticipation Notes (FRANS).

VDOT has secured FRANS as payable solely from future anticipated federal reimbursements, and finances various capital transportation projects throughout the Commonwealth pursuant to the Virginia Transportation Act of 2000 (VTA). The FRANS have a ten-year maturity and commit appropriations of future FHWA reimbursements. The total FRANS liability for the Commonwealth at June 30, 2009 is \$522.2 million, down \$121 million from the June 30, 2008 liability of \$643.2 million.

Toll Revenue

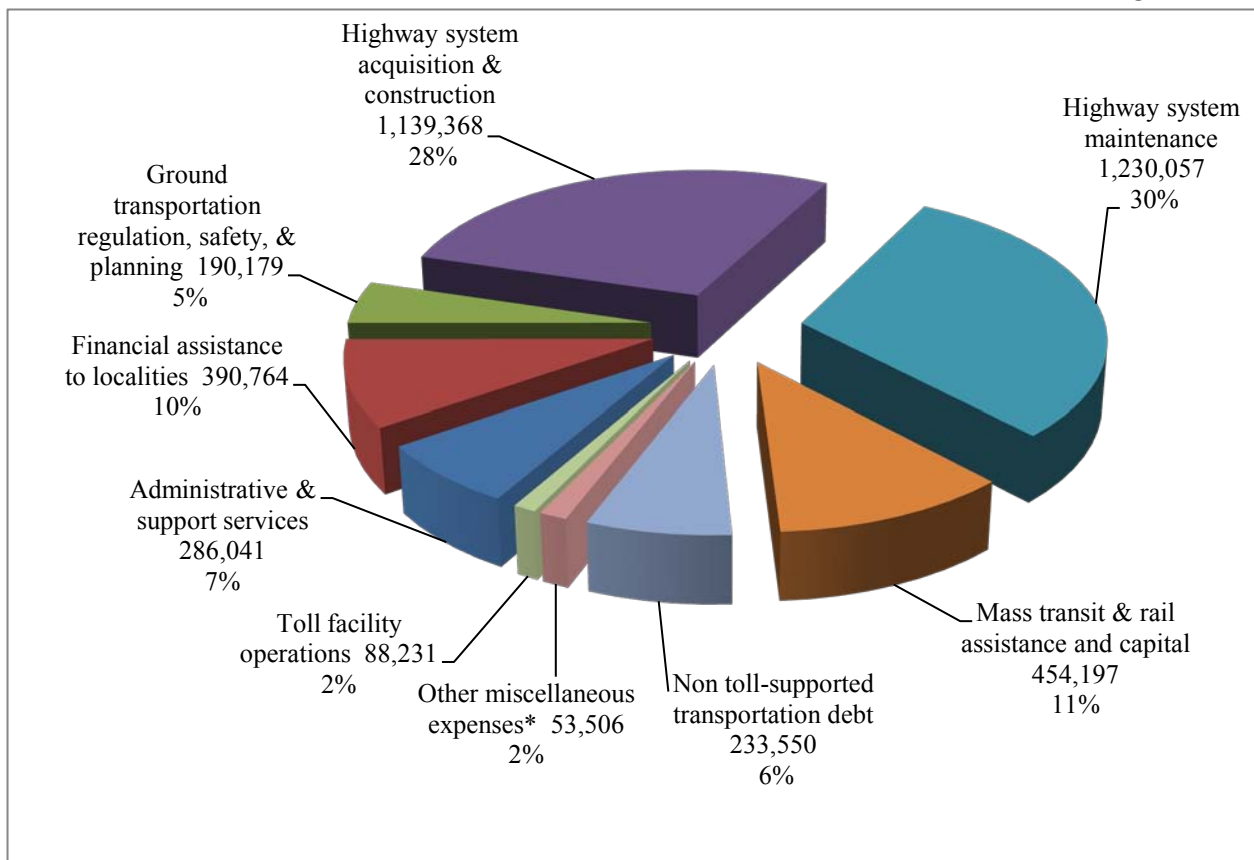
Toll facilities provide a portion of Transportation's revenues and arise from the operation of toll facilities located in Central Virginia and Hampton Roads. The facilities are the Powhite Parkway Extension Toll Road and the George P. Coleman Bridge. These toll revenues pay the debt service on bonds issued to construct the facilities, maintenance, and improvements to the facilities, and fund daily operations. For the year ended June 30, 2009 the Commonwealth collected \$48.6 million in toll revenue; \$46.1 million less than the \$94.7 million collected during the year ended June 30, 2008. VDOT's sale of the Dulles Toll Road to the Metropolitan Washington Airports Authority led to this substantial decrease in toll revenue.

Allocation and Use of Funds

In fiscal year 2009, the agencies under the Secretary of Transportation, excluding the independent Port Authority, spent over \$4 billion, or 10 percent of the \$41.2 billion statewide annual budget. Maintenance and construction of highways were the largest uses of these funds. Appendix B provides a comparative schedule of various transportation program expenses from 2008 to 2009.

2009 CTF Program Uses (dollars in thousands)

CHART B



*Other miscellaneous expenses include airport assistance, planning and regulation; capital outlay projects; environmental monitoring; and regulation of professions and occupations.

Source: Commonwealth Accounting and Reporting System

Highway Maintenance and Operation

HMO Fund allocations provide road maintenance funding, while Transportation Trust Fund (TTF) allocations primarily support road construction. The Code of Virginia requires the full funding of highway maintenance before the funding of construction. The Board must allocate reasonable and necessary funding for maintenance of roads within the interstate, primary, and secondary systems, city and town maintenance payments and counties that have withdrawn or elect to withdraw from the secondary system. For fiscal year 2009 VDOT spent over \$1.2 billion on highway maintenance. VDOT spent \$219.7 million for agency administrative operations, including overhead related to maintenance, construction, and other programs.

While the Code of Virginia prioritizes the maintenance of the existing state highway infrastructure over other activities, including construction, it does not establish specific guidelines relating to the condition of the highway system or any funding. VDOT is responsible for determining and allocating funding needs for Highway Maintenance.

Transportation Trust

After funding maintenance expenses as discussed above, the Code of Virginia requires the allocation of the remaining funds for the administration of various transportation programs. VDOT acts as the fiscal agent of the TTF and allocates the revenues as provided in the Code of Virginia. VDOT allocates these revenues before allocating any funds for the highway system. The process begins with the official revenue forecast for transportation revenues. Once estimated, VDOT determines the allocation amounts to the various modes based upon the following statutory percentages:

- 2.4 percent to fund the Department of Aviation
- 4.2 percent to fund the Port Authority
- 14.7 percent to fund public transportation
- 78.7 percent to fund highway construction and maintenance

Mass Transit Assistance

DRPT receives 14.7 percent of the TTF and allocates this share according to the Code of Virginia, Section 33.1-23.03:2. DRPT transfers these funds to aid the mass transit systems throughout the state using the following allocation.

- 73.5 percent for urban and non-urban areas that fund public transportation systems for operating related expenses such as administration, fuels, lubricants, tires, maintenance parts, and supplies under a distribution formula using total operating expenses.
- 25.0 percent for capital purposes based on eligible capital expenses less any federal assistance. Capital expenses include items such as replacement buses or rail cars, stop signs, and construction of terminals and stations.

- 1.5 percent for special projects such as ridesharing, experimental transit, and technical assistance. Ridesharing programs support existing or new local and regional Transportation Demand Management programs. Experimental funds assist communities in preserving and revitalizing public or private public transportation service by implementing innovative projects for one year of operation. Technical Assistance supports planning or technical assistance to help improve or initiate public transportation services.

DRPT also receives federal funding from the Federal Transit Administration (FTA) as well as funding from the Highway Construction Fund for mass transit assistance relating to congestion mitigation, and special allocations for assistance in the Priority Transportation Fund. During 2009, DRPT spent \$383.5 million on mass transit assistance throughout the Commonwealth.

Rail Assistance – Rail Enhancement Fund

The Rail Enhancement Fund provides funding for the development of rail infrastructure in the Commonwealth and funds projects found to have a public benefit equal to or greater than the public investment, and which require the use of Rail Enhancement Funds for timely completion. The Rail Advisory Board and the Director of DRPT develop recommendations for a strategic program of projects, which use the funds to incorporate into a passenger and freight rail improvement program. The Rail Advisory Board reviews the program of projects and may recommend amendments to include additional short and long-range projects.

All projects receiving funds from the Rail Enhancement Fund must include a minimum of 30 percent cash or in-kind matching contribution from a private source, which may include a railroad, a regional authority, a local government source, or a combination of such sources. For fiscal year 2009, DRPT spent \$49 million on Rail assistance; \$31.2 million from the Rail Enhancement Fund, \$14.3 million from the Priority Transportation Fund, and \$3.5 million for short-line railway preservation.

Airport Assistance

Aviation receives 2.4 percent of the Commonwealth's TTF and follows the statutory requirements for its allocation. By statute, Aviation must commit 40 percent of those funds as entitlement payments to air carrier airports, 40 percent to air carrier and reliever airports on a discretionary basis, and 20 percent to general aviation airports on a discretionary basis.

Air carrier airports, with the exception of those owned or leased by Metropolitan Washington Airport Authority, receive an allocation of funds based upon the percentage of enplanements for each airport to total enplanements at all carrier airports, with a maximum of \$2 million and a minimum of \$50,000 per year. Air carrier, reliever, and general aviation airports must apply for discretionary funds. Aviation evaluates, prioritizes, and submits recommendations for allocation of the discretionary funds to the Virginia Aviation Board for final revision and approval. The Aviation Board allocates the discretionary funds and carries forward any uncommitted funds from the current fiscal year to the next fiscal year for future projects.

For fiscal year 2009, Aviation spent \$27.4 million on all air transportation programs, including those noted above, and spent \$1.5 million for the administration and support of all programs.

Marine Port Operation and Security

The Port Authority receives 4.2 percent of the TTF, which funds the majority of the Port Authority's capital projects. The Port Authority also uses the TTF revenue for operational maintenance, related to capital projects; aid to local ports; payments in lieu of taxes to localities; and debt service payments related to capital projects. The Port Authority's capital projects essentially include maintaining and expanding the existing ports, wharfs, and related facilities.

In fiscal year 2009, the Port Authority received revenues of \$33 million from the TTF through the Commonwealth Port Fund and generated \$208.6 million in operating revenue between port operations and Virginia International Terminals, Inc. With this revenue and remaining funds from fiscal year 2008, the Port Authority incurred \$229.1 million in operating expenses. Funds remaining in the Port Fund at the end of each fiscal year do not revert to the Commonwealth, but remain with the Port Fund for future needs. The Port Authority is not part of the financial analysis as a significant portion of their revenue and expenses come from a component unit.

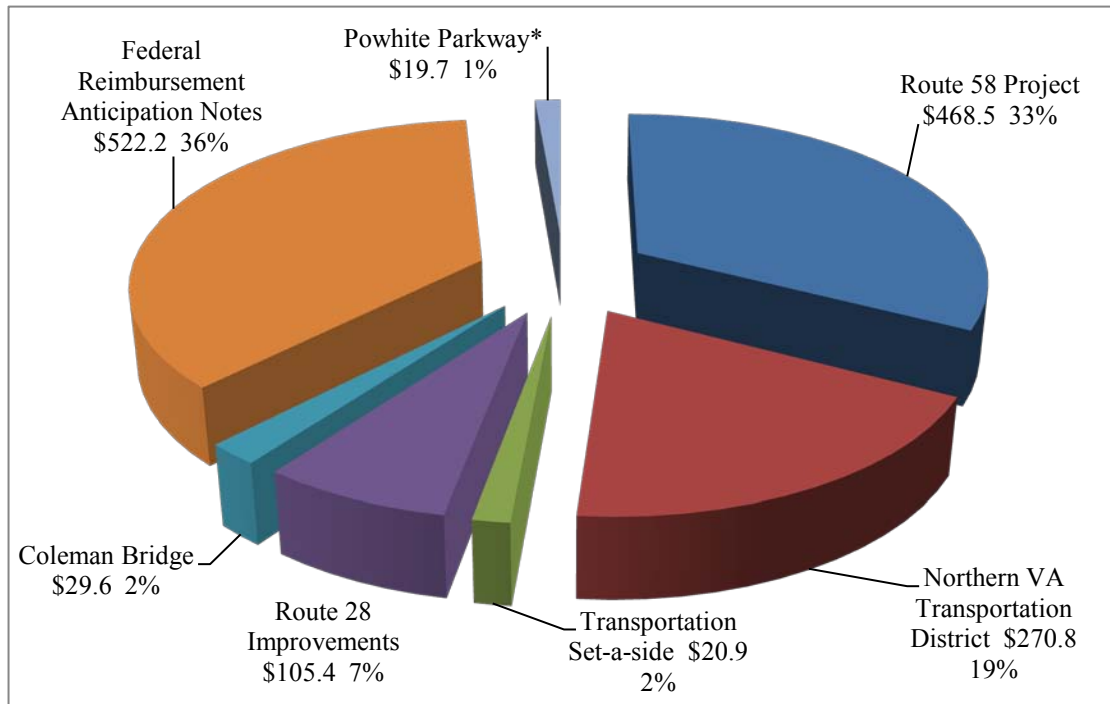
Since the Authority is a component unit of the Commonwealth, this report does not include that financial activity. We issue a separate report on the financial statements of the Virginia Port Authority, which may be located at our website, www.apa.virginia.gov.

Toll Operations and Bond Funded Projects

VDOT has special funds to account for toll operations and special projects that have unique debt service obligations, which we describe below. As of June 30, 2009, total bonds outstanding for VDOT were \$1.4 billion.

2009 Transportation Bonds Payable Outstanding
(dollars in millions)

CHART C



Source: Commonwealth Accounting and Reporting System

* Outstanding debt for the Powhite Parkway includes an \$8 million interest free note payable to Chesterfield County for the repayment of the Toll Road construction expenses from surplus net revenues of the project prior to the retirement of all the bonds issued.

Federal Highway Reimbursement Anticipation Notes

FRANS have a dedicated revenue stream to pay debt services; unlike other debt, this debt does not relate to a specific geographical area. VDOT issues FRANS to finance various capital transportation projects throughout the Commonwealth pursuant to the Virginia Transportation Act of 2000 (VTA). The notes have a ten-year maturity and commit future appropriations of Federal Highway Administration reimbursements.

Northern Virginia Transportation District

Section 33.1-221.1:3 of the Code of Virginia established a Program for Northern Virginia Transportation District Projects. The Commonwealth Transportation Board makes annual allocations to this district to fund projects with remaining bond proceeds issued for such projects.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

December 15, 2009

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Agencies of the Secretary of Transportation**, as defined in the Audit Scope and Methodology section, for the year ended June 30, 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective was to evaluate the accuracy of the Agencies of the Secretary of Transportation's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2009 and test compliance for the Statewide Single Audit. In support of this objective, for those agencies with significant cycles, as listed below, we evaluated the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, the agencies' other accounting systems, and other financial information they reported to the Department of Accounts, reviewed the adequacy of their internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and where applicable reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The agencies' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and

extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Accounts receivable and related collection controls
- Accounts payable and related disbursement controls
- Payroll expenses
- Federal grant revenues and expenses
- Contract management
- Fixed asset management
- Lease management
- Information security
- General system controls
- Financial assistance
- Financial reporting controls

Our Office is planning to issue a statewide report on performance measures that covers the topic from the perspective of the entire Commonwealth. To view this report or request electronic copies as they come available, go to: www.apa.virginia.gov.

We performed audit tests to determine whether the agencies' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, contracts, reconciliations, and observation of the agencies' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses. We confirmed agency cash balances with outside parties.

Conclusions

We found that the Agencies of the Secretary of Transportation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and other agency accounting systems, as well as other financial information reported to the Department of Accounts for inclusion in the Comprehensive Annual Financial Report for the Commonwealth of Virginia. The Agencies record their financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal controls that we consider significant deficiencies requiring management's attention and corrective action; these are included in the section entitled "Internal Control Findings and Recommendations."

The Agencies have taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Exit Conference and Report Distribution

We discussed this report with management at the Agencies of the Secretary of Transportation between January 21, 2010 and January 26, 2010. Management's responses have been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

AWP/alh



COMMONWEALTH of VIRGINIA

Department of Motor Vehicles
2300 West Broad Street

D. B. Smit
Commissioner

Post Office Box 27412
Richmond, VA 23269-0001
866-DMV-LINE or
800-435-5137

January 14, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, VA 23219

Dear Walt:

Thank you for this opportunity to respond to your latest audit of the Commonwealth Transportation Fund, Agencies of the Secretary of Transportation, for the fiscal year ended June 30, 2009. Attached are the corrective actions we are proposing in response to your finding. As you can see, a great deal of activity is already well underway.

Please let me know if you have any questions or concerns.

Sincerely,

D.B. Smit

Enclosure

**Department of Motor Vehicles
Response and Corrective Action Plan
Commonwealth Transportation Fund Agencies of the
Secretary of Transportation
For the fiscal year ended June 30, 2009**

APA Finding – Improve Information System Security Program

DMV Corrective Action Plan:

DMV has initiated a Change Control with the IT Partnership to set password parameters to the appropriate settings and bring all systems in compliance with COVA SEC501 and DMV IT Security Policies.

DMV has identified 3 computers that are handling sensitive data and will work with the IT Partnership to have their Whole Disk Encryption Product installed.

DMV will work with the IT Partnership to build a Secure FTP Portal to facilitate Sensitive Data Exchange. Once implemented, we will amend DMV's MOUs with our data exchange partners to require the portal's use when exchanging sensitive data. Due to the extended times required by the IT Partnership to process a Request for Service (RFS), the Secure FTP Portal may not be implemented until December of 2010.

Responsible Executive:

Dave Burhop, Chief Information Officer

Completion Date:

January 25, 2010 – Change of Password Parameters
June 1, 2010 – Encryption of Desktop and Laptops
December 31, 2010 – Secure FTP Portal

OFFICIALS
As of June 30, 2009

Pierce R. Homer, Secretary of Transportation

Ralph Davis, Deputy Secretary

Department of Motor Vehicles
Demerst B. Smit, Commissioner

Department of Transportation
David S. Ekern, Commissioner

Department of Rail and Public Transportation
Chip Badger, Executive Director

Department of Aviation
Randall P. Burdette, Executive Director

Motor Vehicle Dealer Board
Bruce Gould, Executive Director

Board of Towing and Recovery Operations
J. Marc Copeland, Executive Director

Virginia Port Authority
Jerry A. Bridges, Executive Director

COMMONWEALTH TRANSPORTATION BOARD

Pierce R. Homer, Chairman
David S. Ekern, P. E., Vice Chairman

Jim D. Bowie	J. Douglas Koelemay
Mary Lee Carter	Dana M. Martin
Julia A. Connally	Gerald P. McCarthy
John J. "Butch" Davies III	Peter B. Schwartz
James A. Davis	Cord A. Sterling
E. Dana Dickens, III	Mathew O. Tucker
James L. Keen	Kenneth Spencer White

Alan S. Witt

AGENCIES OF THE SECRETARY OF TRANSPORTATION
SUMMARY OF FINANCIAL INFORMATION
SOURCES AND USES
For Fiscal Years 2009 and 2008

Sources:	Department of Aviation		Department of Motor Vehicles	
	2009	2008	2009	2008
Revenue (net of refunds):				
Taxes	\$ 26,507,161	\$ 29,067,501	\$ 1,033,591,010	\$ 1,143,351,565
Fees, licenses and permits	598,559	596,005	466,315,333	461,549,160
Tolls	-	-	-	-
Service, property and recycling sales	620,710	716,915	91,539	184,176
Receipts from cities, counties and towns	-	-	-	-
Private donations and gifts	-	-	-	-
Fines and assessments	1,164	2,155	31,051,265	31,658,721
Interest, dividends and rents	660,836	1,002,053	271,272	234,145
Federal grants and contracts	604,925	394,397	22,745,562	33,341,750
Other miscellaneous revenues	66,295	1,073,650	276,780	845,528
General fund appropriations	35,584	44,067	-	-
Total revenue	<u>29,095,234</u>	<u>36,239,908</u>	<u>1,554,342,762</u>	<u>1,676,814,723</u>
Net transfers in/(out)	<u>(87,168)</u>	<u>(70,235)</u>	<u>(1,297,231,753)</u>	<u>(1,431,598,598)</u>
Total funds available for use	<u>\$ 29,008,066</u>	<u>\$ 36,169,673</u>	<u>\$ 257,111,009</u>	<u>\$ 245,216,125</u>
Uses:				
Expenses (net of refunds):				
Administrative and support services	\$ 1,532,386	\$ 1,020,268	\$ 59,345,179	\$ 70,425,494
Air transportation programs	27,402,798	35,149,406	-	-
Capital Outlay projects	-	-	1,889,435	499,536
Environmental monitoring & evaluation	-	-	-	-
Financial assistance to localities	-	-	37,657,715	38,576,977
Ground transportation regulation	-	-	139,139,316	122,216,631
Ground transportation planning	-	-	-	-
Ground transportation safety	-	-	13,906,020	13,497,487
Highway acquisition and construction	-	-	-	-
Highway maintenance	-	-	-	-
Mass transit assistance	-	-	-	-
Debt service, principal and interest	-	-	-	-
Public transportation acquisition and construction	-	-	-	-
Rail assistance	-	-	-	-
Regulation of professions and occupations	-	-	-	-
Toll facility operations	-	-	-	-
Total expenses	<u>\$ 28,935,184</u>	<u>\$ 36,169,674</u>	<u>\$ 251,937,665</u>	<u>\$ 245,216,125</u>

Source: Commonwealth Accounting and Reporting System

Department of Rail and Public Transportation		Department of Transportation		Motor Vehicle Dealer Board		Board of Towing and Recovery Operations	
2009	2008	2009	2008	2009	2008	2009	2008
\$ 157,788,229	\$ 146,616,726	\$ 768,591,865	\$ 683,378,184	\$ 118,777	\$ 236,512	\$ -	\$ -
3,159,076	3,135,557	34,582,864	36,056,064	1,982,593	2,079,392	789,976	192
-	-	48,565,980	94,662,041	-	-	-	-
-	-	4,725,464	8,472,983	-	-	-	-
-	-	87,498,052	97,478,281	-	-	-	-
-	-	2,913,052	21,141,893	-	-	-	-
7,127	13,201	1,319,765	593,535	-	-	-	-
3,699,034	8,926,795	40,590,417	81,430,349	29,985	61,014	625	-
34,183,682	32,268,897	775,242,984	851,359,748	-	-	-	-
626,799	7,006,424	18,434,428	14,687,215	-	-	-	-
-	-	333,792,414	359,007,586	-	-	-	-
<u>199,463,948</u>	<u>249,052,798</u>	<u>2,116,257,285</u>	<u>2,248,267,878</u>	<u>2,131,356</u>	<u>2,376,919</u>	<u>790,601</u>	<u>218,224</u>
<u>143,546,277</u>	<u>121,596,506</u>	<u>944,453,009</u>	<u>1,227,773,047</u>	<u>(17,944)</u>	<u>(14,351)</u>	<u>-</u>	<u>-</u>
<u>\$ 343,010,225</u>	<u>\$ 370,649,304</u>	<u>\$ 3,060,710,293</u>	<u>\$ 3,476,040,926</u>	<u>\$ 2,113,412</u>	<u>\$ 2,362,568</u>	<u>\$ 790,601</u>	<u>\$ 218,224</u>
<hr/>							
\$ 4,764,128	\$ 4,608,531	\$ 219,706,731	\$ 215,721,892	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	12,799,604	12,800,268	-	-	-	-
-	-	8,895,046	14,857,549	-	-	-	-
-	-	353,105,908	348,948,589	-	-	-	-
-	-	-	-	-	-	-	-
5,327,453	2,645,280	31,786,675	32,475,208	-	-	-	-
-	-	-	-	-	-	-	-
-	-	1,139,368,032	1,341,596,902	-	-	-	-
-	-	1,230,057,426	1,198,141,832	-	-	-	-
383,498,125	195,469,136	-	-	-	-	-	-
-	-	277,512,600	258,043,125	-	-	-	-
21,730,788	131,637,538	-	-	-	-	-	-
48,967,629	36,288,819	-	-	-	-	-	-
-	-	-	-	1,900,740	1,874,803	618,432	218,224
-	-	44,268,212	43,209,642	-	-	-	-
<u>\$ 464,288,122</u>	<u>\$ 370,649,304</u>	<u>\$ 3,317,500,235</u>	<u>\$ 3,465,795,007</u>	<u>\$ 1,900,740</u>	<u>\$ 1,874,803</u>	<u>\$ 618,432</u>	<u>\$ 218,224</u>

AGENCIES OF THE SECRETARY OF TRANSPORTATION
SUMMARY OF FINANCIAL INFORMATION
SOURCES AND USES
For Fiscal Years 2009 and 2008

APPENDIX A

Sources:	Secretary of Transportation		Total Commonwealth Transportation	
	2009	2008	2009	2008
Revenue (net of refunds):				
Taxes	\$ -	\$ -	\$ 1,986,597,043	\$ 2,002,650,488
Fees, licenses and permits	-	-	507,428,401	503,416,369
Tolls	-	-	48,565,980	94,662,041
Service, property and recycling Sales	-	-	5,437,714	9,374,074
Receipts from cities, counties and towns	-	-	87,498,052	97,478,281
Private donations and gifts	-	-	2,913,052	21,141,893
Fines and assessments	-	-	32,379,321	32,267,612
Interest, dividends and rents	-	-	45,252,170	91,654,357
Federal grants and contracts	-	-	832,777,153	917,364,792
Other miscellaneous revenues	-	8,802	19,404,302	23,621,619
General fund appropriations	-	-	333,827,998	359,051,653
Total revenue	-	8,802	3,902,081,185	4,212,979,252
Net transfers in/(out)	692,731	769,863	(208,644,848)	(81,543,768)
Total funds available for use	<u>\$ 692,731</u>	<u>\$ 778,664</u>	<u>\$ 3,693,436,337</u>	<u>\$ 4,131,435,484</u>
Uses:				
Expenses (net of refunds):				
Administrative and support services	\$ 692,731	\$ 769,863	\$ 286,041,154	\$ 292,546,047
Air transportation programs	-	-	27,402,798	35,149,406
Capital Outlay projects	-	-	14,689,039	13,299,804
Environmental monitoring & evaluation	-	-	8,895,046	14,857,549
Financial assistance to localities	-	-	390,763,623	387,525,566
Ground transportation regulation	-	-	139,139,316	122,216,631
Ground transportation planning	-	-	37,114,128	35,120,488
Ground transportation safety	-	-	13,906,020	13,497,487
Highway acquisition and construction	-	-	1,139,368,032	1,341,596,902
Highway maintenance	-	-	1,230,057,426	1,198,141,832
Mass transit assistance	-	-	383,498,125	195,469,136
Debt service, principal and interest	-	-	277,512,600	258,043,125
Public transportation acquisition and construction	-	-	21,730,788	131,637,538
Rail assistance	-	-	48,967,629	36,288,819
Regulation of professions and occupations	-	-	2,519,172	2,093,027
Toll facility operations	-	-	44,268,212	43,209,642
Total expenses	<u>\$ 692,731</u>	<u>\$ 769,863</u>	<u>\$ 4,065,873,109</u>	<u>\$ 4,120,692,999</u>

Source: Commonwealth Accounting and Reporting System

APPENDIX B

MAJOR STATE TRANSPORTATION REVENUE SOURCES

Gasoline Motor Fuels Taxes

Highway Maintenance and Operating Fund	\$.1486
Transportation Trust Fund	.0250
Department of Motor Vehicles	<u>.0014</u>
Total (per gallon)	<u>\$.1750</u>

Motor Vehicle Sales and Use Tax

Highway Maintenance and Operating Fund	2.00%
Transportation Trust Fund	<u>1.00%</u>
Total	<u>3.00%</u>

Motor Vehicle Registration Fee

Highway Maintenance and Operating Fund	\$26.00
Department of Motor Vehicles Operations	4.00
Transportation Trust Fund	3.00
Department of Health – Emergency Medical Services	4.00
State Police – Vehicles Safety Inspection	1.50
Department of Health – Rescue Assistance	<u>.25</u>
Total	<u>\$38.75</u>

State General Sales and Use Tax

Transportation Trust Fund	.5%
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