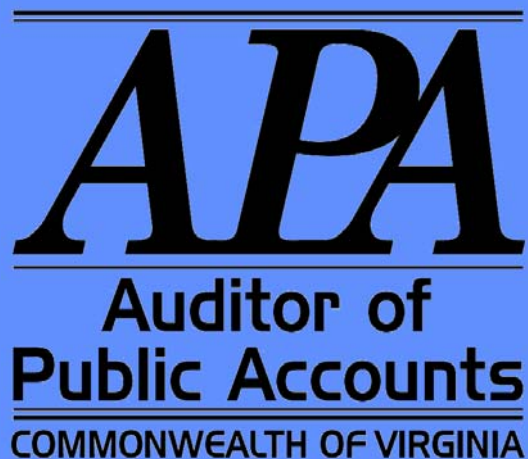


**AGENCIES OF THE SECRETARY
OF
TRANSPORTATION**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2011**



AUDIT SUMMARY

This report discusses the financial activities and performance of the agencies of the Secretary of Transportation. Together, the six agencies within the secretariat provide services supporting land, air, and water transportation in the Commonwealth. Their responsibilities include collecting revenues from taxes, licenses, and registrations to fund operations; developing and maintaining highways, seaports, and airports; and assisting in the development of private and local rail, public transportation, highways, airports, and seaports.

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, 2011, and test compliance for the Statewide Single Audit. Our audit for the year ended June 30, 2011, 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;
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- certain matters involving internal controls that we consider significant deficiencies requiring management's attention and corrective action. These matters are included in the section entitled "Internal Control and Compliance Findings and Recommendations" starting on page one.

Department of Motor Vehicles

Customer Services System Integrated Systems Redesign

In 2005, Motor Vehicles started the process to modernize their primary customer data system, Citizen Services System (CSS), but has realized limited results from this effort. Originally estimated at \$32.5 million, by early 2011 the budget for the project had grown to over \$90.0 million as Motor Vehicles refined their estimates for internal labor, hardware and external costs. Motor Vehicles suspended the project in May 2011.

In November 2011, they released a road map to close out and transition the project from a single massive development initiative, into a system development program office, dividing the initiative to replace CSS into 34 smaller projects. Motor Vehicles anticipates the first series of 13 projects will cost almost \$8 million and be done by June 2013, with the first initiative scheduled for completion by June 2012.

Management has not defined the scope, duration and cost of the remaining 21 projects. As the 13 initial projects are completed the opportunity exists that the number of projects and nature of the work could increase. Given this, management has not projected if this approach will become more or less costly than the original project.

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INTERNAL CONTROL AND COMPLIANCE **FINDINGS AND RECOMMENDATIONS**

DEPARTMENT OF MOTOR VEHICLES

Enhance Information System Security Program

The Department of Motor Vehicles (Motor Vehicles) does not update or maintain its information security program to address data safeguard weaknesses in its IT environment. In some cases these weaknesses also reflect instances of non-compliance with Commonwealth IT security standards. Without proper safeguards to protect confidential and mission critical information, Motor Vehicles incurs an increased risk of a loss of data confidentiality, compromised data integrity and unavailable data when needed.

Since our recommendations include descriptions of security mechanisms, which are exempt from public disclosure under the Code of Virginia, management received a separate document containing a detailed description of our recommendations. The following is a public summary.

- **Information Security Program**: Motor Vehicles developed each policy making up their information security program independently to address a specific need. Due to their separate nature, these policies present conflicting guidance, making implementation and enforcement more challenging. Further, in one instance a document has remained unapproved by management for more than two years.

To the extent feasible, Motor Vehicles should eliminate any redundant or conflicting guidance to ensure staff compliance with their policies and procedures. Further, management should conduct an ongoing assessment and update of these documents as Motor Vehicles makes changes to its IT environment and the Commonwealth makes updates to its security standards. Finally, management should promptly and formally approve these documents to ensure their enforceability as agency policy.

- **Security Awareness Training**: Motor Vehicles does not sufficiently monitor annual security awareness training to ensure all staff and contractors receive it in accordance with Commonwealth security standards. During the most recent cycle, Motor Vehicles did not train over 200 staff and contractors (10 percent). Further, Motor Vehicles did not complete developing a role-based IT security training program for employees and contractors, who design, manage, administer, and operate IT systems and applications.

Motor Vehicles should ensure the Information Security Officer actively monitors the completion of the annual IT Security Awareness and Training. We further recommend Motor Vehicles complete developing a role-based Security Awareness and Training program that gives specialized training to agency resources responsible for key areas of the information security program including, but not limited to, COOP

and Disaster Recovery teams, Incident Response teams, and application design and maintenance teams.

- Disaster Recovery and Contingency Planning: Motor Vehicles' Disaster Recovery and Contingency Planning documents do not adequately address the responses or responsibilities required for Motor Vehicles' systems, the Commonwealth's standards for disaster recovery, or Motor Vehicles' Business Impact Analysis or Risk Assessment. Motor Vehicles' IT environment includes a significant number of applications residing in multiple locations. Motor Vehicles relies heavily on the disaster recovery services and strategies of multiple organizations to ensure its ongoing operations. Without well documented plans which are consistent with the organization's business impact analysis and risk assessments, recovery efforts may not meet the business' needs, negatively impacting their ability to carry out their mission as well as citizens confidence in their operations.

Motor Vehicles recently updated their Business Impact Analysis and Risk Assessments for their IT environment. Motor Vehicles should use these updated documents to drive a review, assessment, and update to their entire Disaster Recovery and Continuity of Operations Plan documents, incorporating all critical systems into those documents, and ensuring that these plans address the required responses and responsibilities for all systems identified and for all parties involved in accordance with Commonwealth standards.

We recommend that Motor Vehicles dedicate the necessary resources to implement controls that address the weaknesses noted above. We also recommend that Motor Vehicles establish the appropriate policies and procedures to document expectations and to allow consistent application and enforcement.

Improve Database Security

Motor Vehicles does not use minimum database administrator account controls to adequately detect or prevent possible malicious or unintentional modification or disclosure of sensitive data. The Commonwealth's information security standard, SEC 501, and the Center for Internet Security (CIS) Oracle best practices recommend organizations to use certain account controls to minimize risks to sensitive data. Since our recommendations include descriptions of security mechanisms, which are exempt from public disclosure by the Code of Virginia, management received a separate document containing a detailed description of our recommendation. The following is a public summary of our findings.

Database administrator accounts are privileged accounts with direct access to the database and that have rights to add, change, and delete data without restrictions normally found in user applications.

- DMV does not use automated controls to enforce database administrator account compliance with password policies.

- DMV does not review specific escalated privileges given to database roles.
- DMV does not log and periodically review specific database administrator account activity.

We recommend that DMV dedicate the necessary resources to implement controls that address the weaknesses noted above. Specifically, we recommend that DMV use automated controls on all its privileged accounts to reduce the risk of unauthorized access.

We also recommend that DMV review the privileges granted to database roles to ensure appropriate access to data. Finally, we recommend that DMV log and review account activity to detect any fraudulent activity and enhance the ability to trace unauthorized activity in the database management system and its tables. Someone outside the database administrator group should perform these reviews.

Improve Internal Controls over Oracle Access

Motor Vehicles employees have access and capabilities in the Oracle Financial Systems beyond the scope of their current job responsibilities, thereby increasing Motor Vehicles' risk for potential inappropriate or fraudulent activity occurring and going undetected. Although Motor Vehicles reviews semi-annually that user access agrees with the documents that originally requested access, this review does not consider any changes in an employee's job functions which did not result in a user access change request, but could impact the appropriateness of the employee's access privileges.

When granting access, Motor Vehicles should follow the principle of least privilege for access to key systems. Employees should only have those assigned privileges that are essential for their job performance. In the circumstance where management grants temporary access, management should immediately eliminate this access once the employee no longer needs this access. Excessive and/or conflicting system access increases the risk that fraudulent transactions could occur, regardless of what the employee's job responsibilities entail or the fact that the systems are logging their transactions.

We further recommend that Motor Vehicles expands its user access monitoring process to include consideration of current job responsibilities against current access privileges in addition to currently authorized access privileges.

Improve Controls over Small Purchase Charge Cards

Motor Vehicles needs to address the following issues in its Small Purchase Charge Card (SPCC) program.

- The Accounting Department paid credit card bills without knowing if the billing amounts were correct, since some cardholder supervisors did not confirm whether to pay the bill.

- A cardholder made purchases over their monthly transaction limit without their supervisor's prior approval.
- A cardholder did not keep their credit card in a secure location, which could have resulted in its misuse.
- Cardholders must prepare monthly reconciliations between a log of purchases and the credit card bill. Cardholder's supervisors did not adequately review or approve the reconciliations, and several cardholders did not retain sufficient documentation of purchased items.
- Finally, insufficient policies exist regarding allowable purchases, specifically related to articles of clothing.

Motor Vehicles management needs to perform a fundamental re-evaluation of its SPCC program, its administrative processes and policies and the risks associated with its employees' non-compliance with its administrative processes and policies. Further, management needs to regularly ensure that its cardholders and their supervisors are fully aware of their duties and responsibilities related to the SPCC program.

DEPARTMENT OF TRANSPORTATION

Improve Microsoft SQL Server Security

The Virginia Department of Transportation (Transportation) does not manage its Microsoft SQL Server 2000 databases to minimize the risk of malicious or unapproved modification of data. A system of internal controls should include capabilities to prevent and detect certain actions to mission critical and confidential data. Some of these controls are recommended by industry best practices and others are necessary to compensate for other weaknesses in an IT environment.

Since our observations include descriptions of security mechanisms, which are exempt from public disclosure by the Code of Virginia, management received a separate document containing a detailed description of our observations. While Transportation had planned to upgrade its legacy MS SQL Server 2000 environment to address several risks, these plans were delayed due to shifting priorities and resource limitations. It should be noted that delaying these upgrades limits Transportation's ability to adequately safeguard data and establish a proper system of internal controls over these serves.

We recommend that Transportation dedicate the necessary resources to execute its plans to upgrade the legacy Microsoft SQL Server 2000 databases. At a minimum, Transportation should consider establishing controls for the weaknesses previously communicated. We also encourage Transportation to run Microsoft Baseline Security Analyzer periodically to ensure compliance with best practices, and to document any decisions and compensating controls for those instances when Transportation needs to deviate from best practices.

TRANSPORTATION AGENCY OVERVIEW

The agencies of the Secretary of Transportation oversee land, air, and water transportation in the Commonwealth. They employed over 8,000 people and spent a combined \$4.3 billion on transportation in fiscal year 2011. Their responsibilities include collecting revenues from taxes, licenses, and registrations to fund operations; developing and maintaining highways, airports, and seaports; and assisting in the development of private and local rail, public transportation, highways, airports, and seaports. In addition to reporting to the Secretary of Transportation, Transportation and Rail and Public Transportation also report to the Commonwealth Transportation Board, who establishes administrative policies for Virginia's transportation system, locates routes, allocates highway funding to specific projects, and provides funding for airports, seaports and public transportation.

This report presents a brief description for each agency under the Secretary as well as limited financial highlights from fiscal year 2011. The Commonwealth's Comprehensive Annual Financial Report and Statewide Single Audit Report include additional financial information about these agencies as well as the Commonwealth Transportation Fund. Further information about the Port Authority is in its separate Comprehensive Annual Financial Report. Our website, www.apa.virginia.gov provides access to each of the reports.

SOURCE AND USE OF FUNDING

Commonwealth Transportation Fund

The Commonwealth Transportation Fund (CTF) has a number of special funds dedicated to supporting the various modes of transportation through the activities of the Departments of Transportation, Motor Vehicles, Rail and Public Transportation and Aviation, as well as the Virginia Port Authority. The CTF provides the majority, if not all, of the funding for these agencies, with the exception of the Virginia Port Authority, which only received 26 percent of their funding from the CTF in 2011.

Appendix A included at the back of this report provides a visual representation of the various funds included in the CTF, the flow of revenues into them and the required use of those funds where set out by the Code of Virginia.

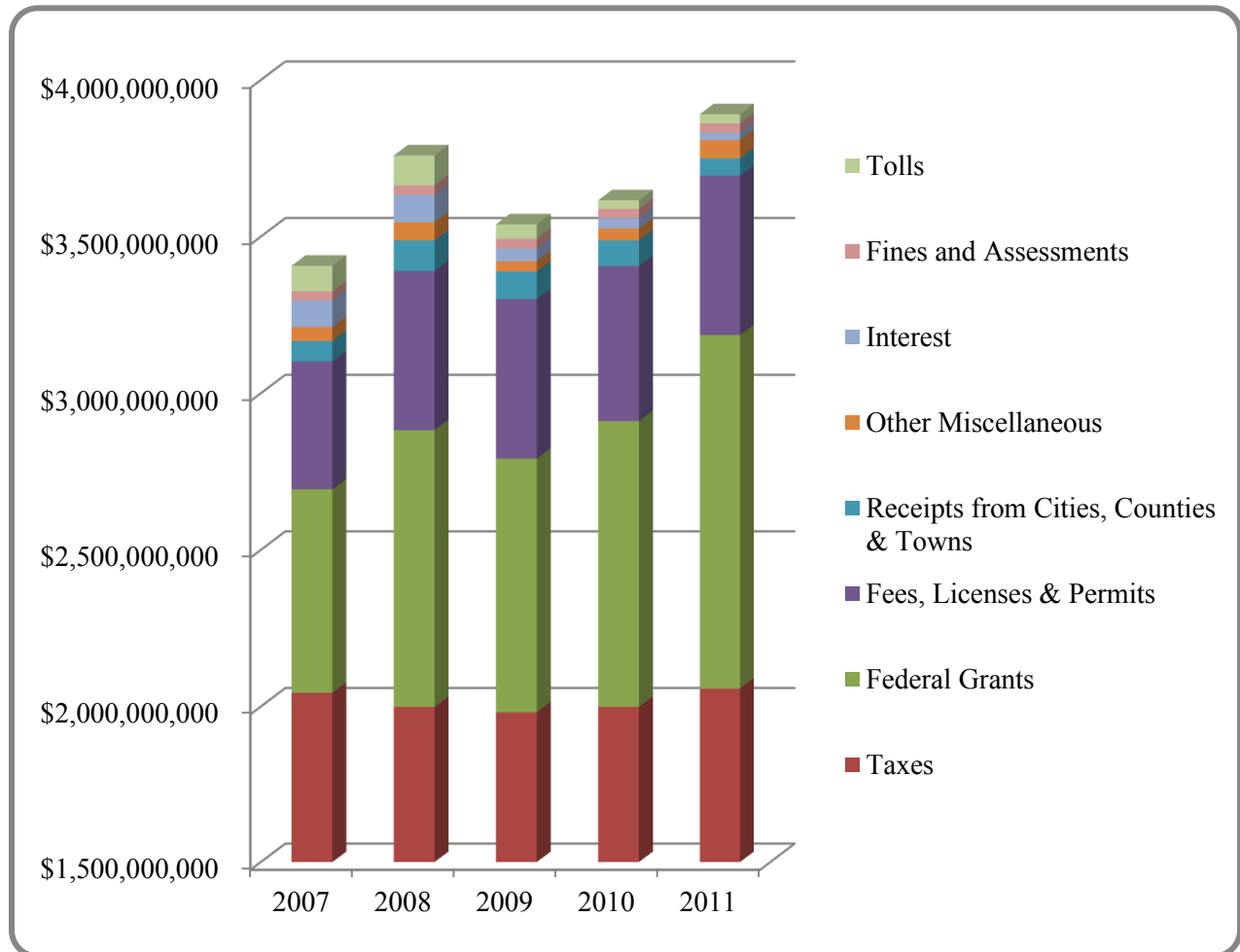
Three main revenue sources provide 95 percent of the funding for the CTF:

- taxes dedicated to fund transportation by the Code of Virginia;
- federal grants and contracts; and
- fees, licenses, and permits related to transportation activities.

For fiscal year 2011, these and the remaining non-debt related CTF sources generated \$3.9 billion in transportation funding. Chart A on the following page reflects the breakdown of the CTF non-debt related revenue sources over the past five years.

Five-year Trend of Commonwealth Transportation Fund Revenues (Excluding Bond Proceeds)

Chart A



*Other miscellaneous revenues include rent, donations, and sale of services, property, and recycling.

*The legend order mirrors the order of the items presented in this Chart from top to bottom.

Source: Commonwealth Accounting and Reporting System

Tax-related collections represent the largest source of collections and have remained relatively stable during this period, averaging \$2 billion annually, while the federal grants received within the CTF have increased. Much of the growth in federal funds results from the American Reinvestment and Recovery Act of 2009, which provided a one-time influx of additional federal dollars for construction-related projects. The long term forecast for federal funding remains a concern for the Commonwealth as Congress has funded the primary grant supporting Transportation through continuing resolutions since 2009, limiting the funding horizon to seven-month periods.

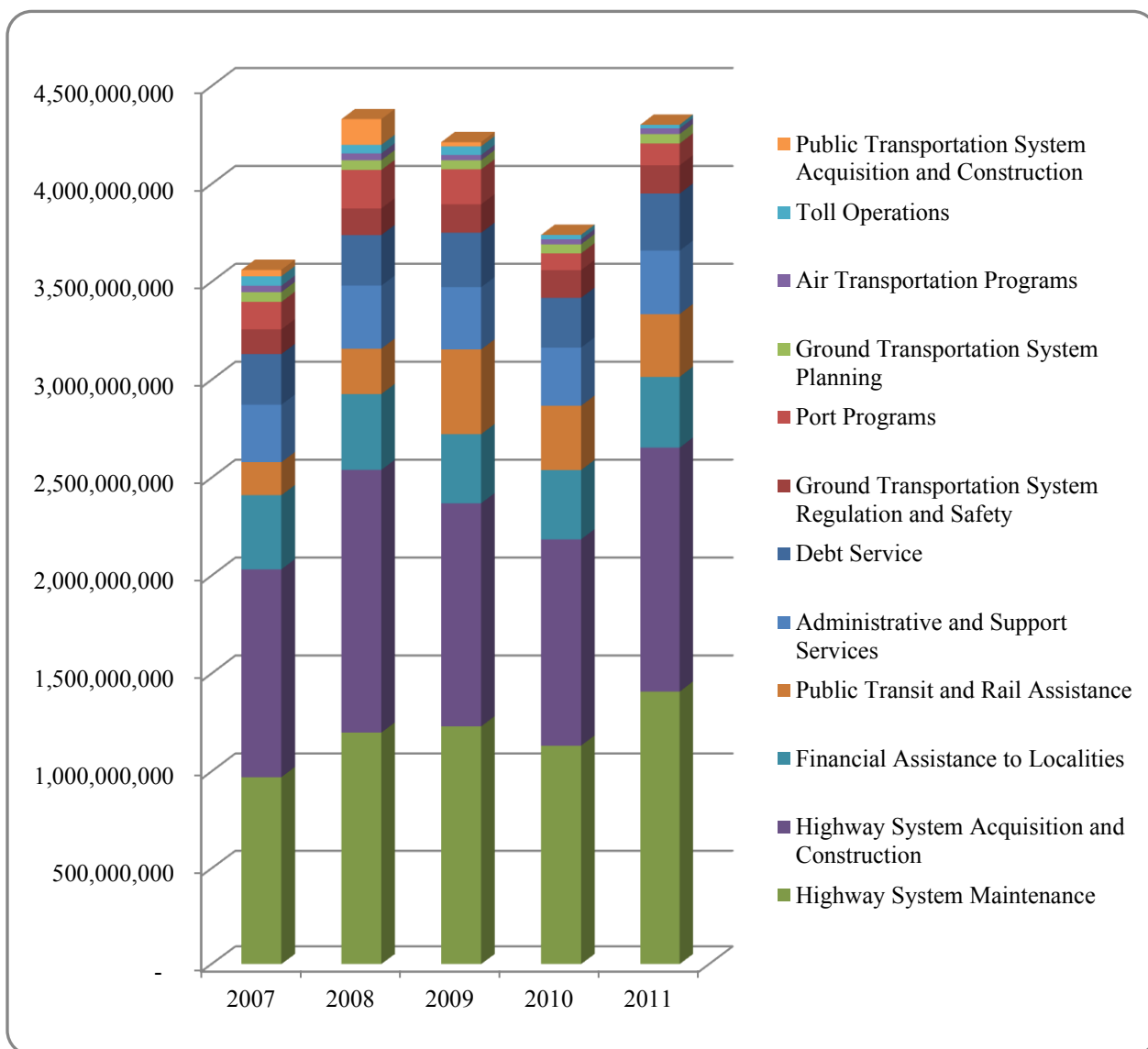
The remaining non-CTF funding, for these and the other agencies of the Secretary of Transportation, represents the direct collection of various special revenues and federal grant awards by these agencies. For example, in addition to its CTF dedicated revenues, the Port Authority's largest revenue source comes from the operating revenues of its component unit, the Virginia International Terminals.

Use of Funds

In fiscal year 2011, the agencies under the Secretary of Transportation spent over \$4.3 billion, or just over 10 percent of the Commonwealth's annual budget. Maintenance and construction of highways are perpetually the largest uses of these funds. However, as Chart B below reveals, in recent years larger percentages of transportation resources have gone to highway maintenance. Chart C also shows public transit and rail assistance growing since 2007. The shift in uses of funds reflects the impact of several factors, including the aging of the Commonwealth's infrastructure, a flattening of the revenue sources that support maintenance activities, and increased attention to alternative forms of transportation by policy makers at the state and federal levels.

Five-year Trend of the Use of Funds

Chart B



*The legend order mirrors the order of the items presented in this Chart from top to bottom.

Source: Commonwealth Accounting and Reporting System

Use of Debt

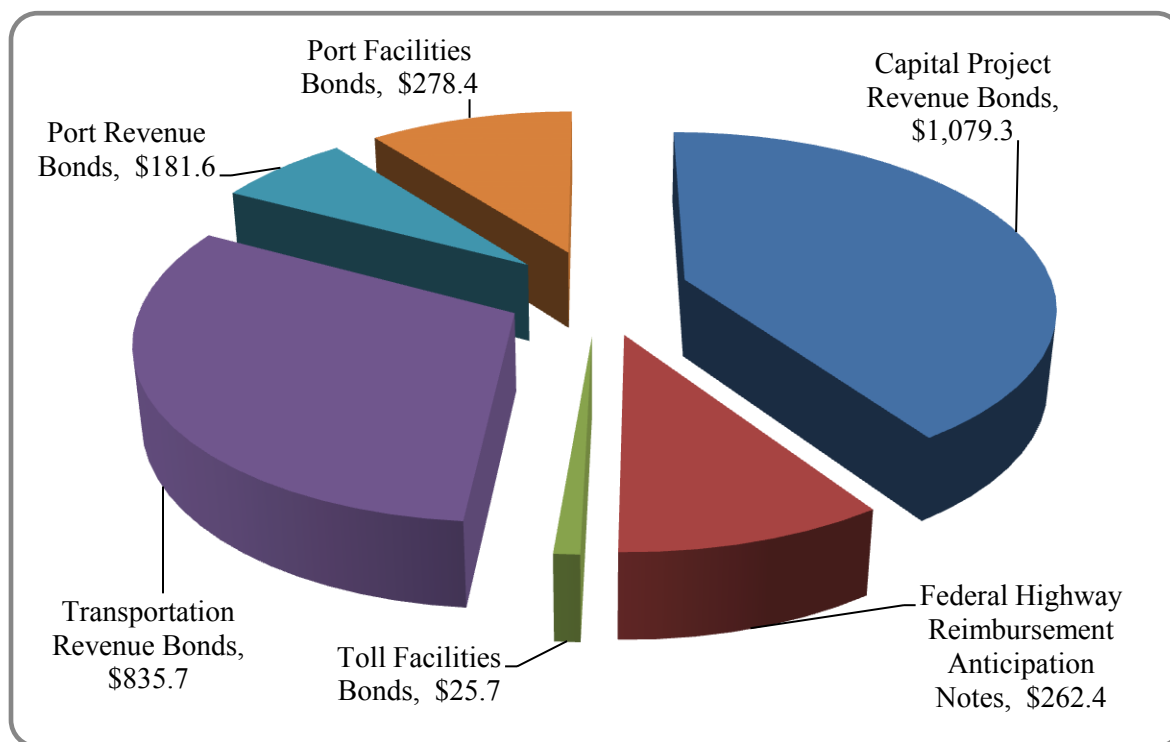
To meet the Commonwealth's growing transportation infrastructure construction needs, the General Assembly has authorized the use of tax-supported and other forms of debt as a means for funding construction. House Bill 3202 passed by the General Assembly in 2007 and Chapter 781 of the Acts of the Assembly of 2009 authorized the issuance of up to \$3.2 billion of Capital Projects Revenue Bonds to support highway, transit and rail capital projects. House Bill 2527 and Senate Bill 1446 passed by the General Assembly in 2011 authorize the acceleration of the release of these Capital Projects Revenue Bonds as well as the issuance of up to \$1.2 billion of Federal Transportation Grant Anticipation Revenue Notes.

The Commonwealth plans to use \$1.2 billion (38 percent) of the 2007 authorization for rail and transit projects. The balance of all authorizations will provide cash-flow for existing projects within the Commonwealth's Six-Year Improvement Program without specific projects designation, with prioritization given to fulfilling federal and revenue sharing matching requirements set out in §33.1-23.4:01.3 of the Code of Virginia.

Chart C below reflects the breakdown of the 2011 Transportation Agency Bonds Payable Outstanding as of June 30, 2011. The outstanding bonds are supported in part or in whole by the CTF, with the exception of the Port Facilities Bonds, which are payable from the net revenues of the Port Authority, and the Toll Facilities Revenue Bonds, which are payable from the revenues of the toll facilities.

Transportation Agency Bonds Payable Outstanding as of June 30, 2011
(dollars in millions)

Chart C



Source: Commonwealth's Comprehensive Annual Financial Report for the year ended June 30, 2011

Summary of the Sources and Uses of Funds

Appendix B included at the end of this report provides a summary of the sources and uses of funds by the agencies of the Secretary of Transportation on a cash basis for the years ending June 30, 2010 and 2011, broken down by CTF and non-CTF sources, with one exception. Since the Port Authority issues its own Comprehensive Annual Financial Report, we have not included their financial activity within Appendix B. The Port Authority's Comprehensive Annual Financial Report can be found on our website, www.apa.virginia.gov

TRANSPORTATION AGENCY HIGHLIGHTS

Department of Motor Vehicles

Motor Vehicles administers the Commonwealth's motor vehicle and motor vehicle tax-related laws. This includes driver licensing; vehicle registration; disabled parking placards; hauling permits; motor carrier permits and inspections; records, and other services. Motor Vehicles also collects commercial fuels tax on behalf of the Commonwealth.

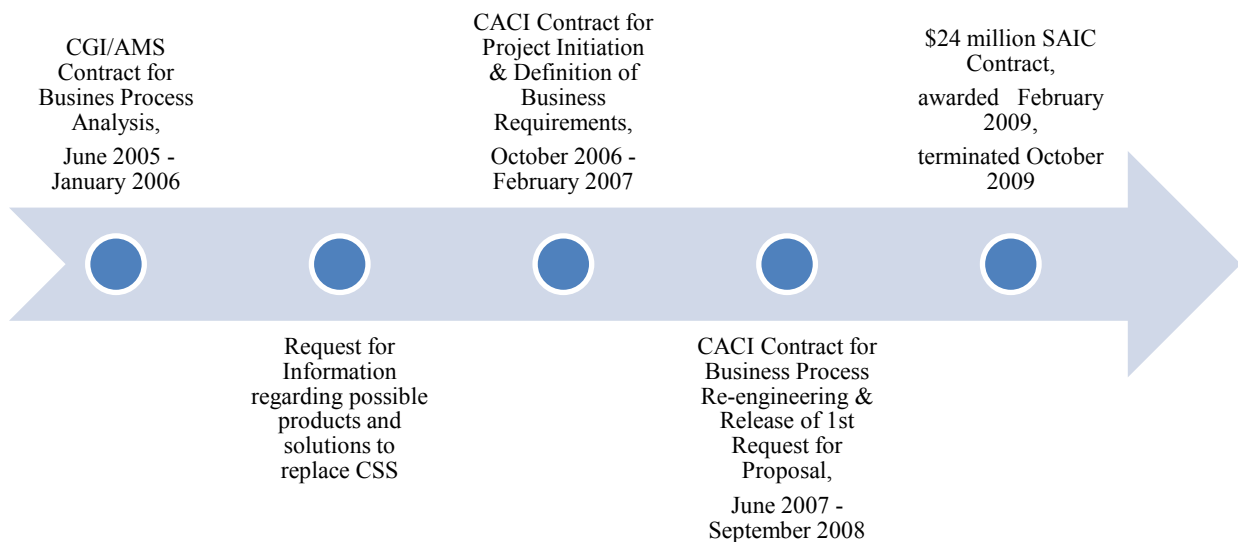
Motor Vehicles retains a certain percentage of the funds they collect to support their operations depending on the revenue type collected. In fiscal year 2011, Motor Vehicles retained \$217.6 million of the \$2.0 billion they collected to offset their \$198.8 million in operational expenses. Personnel costs and contractual services made up the majority (85 percent) of Motor Vehicles operational expenses during the same period.

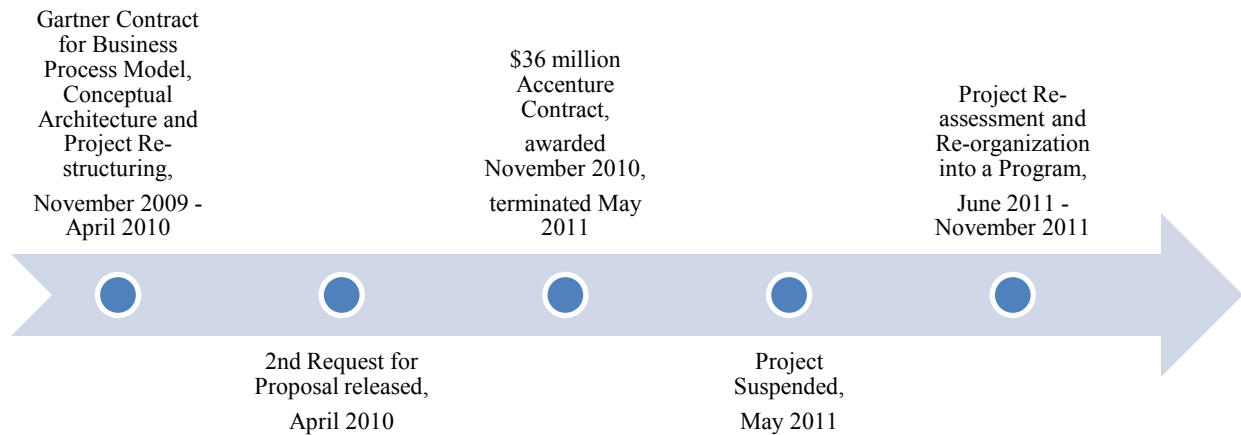
Customer Services System Integrated Systems Redesign

In 2005 Motor Vehicles started the process to modernize their primary customer data system, Citizen Services System (CSS), but has realized limited results from this effort. Motor Vehicles originally estimated the replacement of CSS would cost \$32.5 million. By early 2011, the budget for the project called "CSI" had grown to over \$90.0 million, as Motor Vehicles refined and their estimates for internal labor, hardware and external costs.

CSI stands for Customer-centric, Secure, Service-oriented, state-of-the-art, and Intelligent. The following timelines highlight the starts and stops to the CSI project and its duration, as Motor Vehicles has attempted to define and refine their system requirements and implementation approach.

CSI Project Timeline – 2005 to Present





The development of a sufficiently detailed project approach as well as scoping of the nature and extent of work has proven difficult. As reflected above, since 2005 Motor Vehicles has attempted to partner with development and implementation vendors; however, they cancelled each contract due to disagreements involving the details of each proposed development and implementation approach as well as the scope of the work.

Project Costs

Through June 2011, Motor Vehicles has spent over \$27.6 million on this effort as shown in the table below.

Vendor	Amount	Nature of Expense
CGI/AMS	\$ 1,5,56,250	Consulting Staff - Business Process Analysis to defined scope, goals, objectives for CSI
CACI	1,750,971	Consulting Staff - Project Initiation, Definition of Business Requirements, Business Process Re-engineering, and aid with first Solution Procurement
SAIC	1,620,009	Consulting Staff - Project Initiation, Detailed Design Activities for first Solution
Gartner	417,716	Consulting Staff - Requirements Validation for second Solution
Accenture	4,037,470	Consulting Staff - Project Initiation, Detailed Design Activities for second Solution
Accenture	3,611,245	Software and Hardware for second Solution
VITA	3,385,172	Software and Hardware
Motor Vehicles	9,861,542	Internal staff costs from April 2005 to June 2011
Other	1,364,148	Miscellaneous
Total	\$27,604,523	

Motor Vehicles anticipates it will be able to reuse \$6.3 million of the hardware and software purchased over the life of the now suspended project. They also identify several items (such as use cases, requirements listings, validation packages, business process analysis/re-engineering documentation) from the CSI project as improving management's understanding of their business process and aiding in future development initiatives. It is difficult to attach a dollar value to these items as each has been through several iterations over the life of the project.

Current Status

Since the project's suspension in May 2011, Motor Vehicles has focused again on restructuring their approach. In November 2011, they released a road map to close out and transition the CSI project from a single massive development initiative into a system development program office. Called FACE, the program office will divide the replacement of CSS in multiple smaller projects. Internal staff will do each project using existing technologies within Motor Vehicles and following an Agile development approach.

To date the FACE program office has identified a total of 34 separate projects needed to replace CSS. Motor Vehicles has or will be initiating 13 of these smaller projects by September 2012. The FACE program office anticipates these 13 projects will cost almost \$8 million and will be done by June 2013, with the first initiative scheduled for completion by June 2012.

As these initial projects are completed the opportunity exists that the number of projects and nature of the work could increase. Management has not defined the scope, duration and cost of the currently remaining projects. Given this, management has not projected if this approach will become more or less costly than the original project.

Department of Transportation

The Commonwealth has the third largest state-maintained highway systems in the United States, behind Texas and North Carolina. Transportation manages almost 58,000 miles of interstate, primary, and secondary roads and provides funding to support the maintenance of over 10,000 miles of urban streets. Transportation 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.

Highway maintenance and operations represent approximately 50 percent of Transportation's almost \$3.4 billion budget, followed by approximately 20 percent for highway systems' construction. The remaining portions of the budget address the needs and requirements of debt service, provide support to other agencies or government entities, and cover administrative costs of the agency.

Financial Management System Replacement

During fiscal year 2011 Transportation continued their efforts leading the implementation of the Commonwealth's new financial management system, Cardinal, using PeopleSoft as the software

foundation. Two core modules of Cardinal, the general ledger and accounts payable, will serve as the base enterprise application for the Commonwealth and replace the existing Commonwealth Accounting and Reporting System (CARS). Transportation's entire planned system for Part 1 expands beyond the base modules provided to the Commonwealth to include functionality such as project accounting and time entry. Transportation went live with their Part 1 modules on December 5, 2011.

Additional information about the Cardinal Project's implementation for the Commonwealth can be found on our website, www.apa.virginia.gov, within the Agencies of the Secretary of Finance report on audit for the year ended June 30, 2011, as well as our Progress Report on Selected Systems Development Projects in the Commonwealth scheduled for release in February 2012

Department of Rail and Public Transportation

Rail and Public Transportation is primarily responsible for determining the present and future needs for rail and public transportation throughout the Commonwealth. This task includes economic feasibility assessment 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.

Rail and Public Transportation coordinates their research, planning, and policy analysis efforts with Transportation, developing standards to evaluate all public transportation activities in the Commonwealth. Finally, Rail and Public Transportation maintains liaisons with state, local, district, and federal agencies or other entities, private or public, having comparable responsibilities for passenger and freight rail, transportation demand management, ridesharing, and public transportation programs at various service levels.

Ninety-five percent of Rail and Public Transportation's funding provides support for public transit and rail assistance for local and regional projects. Rail and Public Transportation's operating and administrative expenses use a little more than one percent of their funding.

Department of Aviation

Aviation plans and promotes air transportation in the Commonwealth; licenses aircraft and airports; and funds local airport planning, development, and improvements. Aviation 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, including airports and landing areas. Aviation also provides air transportation services to the Governor, the Legislature, and state agencies. In fiscal year 2011, Aviation used 82 percent of their funding to provide financial assistance to local airports, 13 percent on delivery of services to clients, and less than five percent to cover administrative expenses.

Motor Vehicle Dealer Board

The Dealer Board regulates motor vehicle dealers and salespersons. The Dealer 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. The Dealer Board can invoke disciplinary actions including, but not limited to, revoking licenses or certifications and assessing civil penalties for regulatory violations. In fiscal year 2011, personnel costs represented 79 percent of the Dealer Board's total expenses. Contractual services and continuous charges reflect the next 20 percent of the Board's expenses.

Virginia Port Authority

The Port Authority is the Commonwealth's agency for international transportation and maritime commerce. The Port Authority's major activities are promoting Virginia's ports throughout the world; developing water transportation facilities; maintaining ports, facilities, and services; and providing security services. To this end the Port Authority manages three marine terminals and an intermodal facility. In addition, the Port Authority has an operating lease for the use and operation of an additional terminal in Portsmouth. The Commonwealth Transportation Board oversees the allocations to the Commonwealth Port Fund, while a Board of Commissioners composed of 12 members manages the activities of the Port Authority.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 14, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
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, 2011. 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, 2011 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
Information security and general system controls

Fixed asset management
Inventory
Contract management
Financial reporting controls

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 control and its operation and compliance with applicable laws and regulations 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."

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 the management at the agencies of the Secretary of Transportation between February 2 and 3, 2011. Management's responses to the findings identified in our audit are included in the section titled "Agency Response." We did not audit management's responses and, accordingly, we express no opinion on them.

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

JBS/alh



COMMONWEALTH of VIRGINIA

Richard D. Holcomb
Commissioner

Department of Motor Vehicles
2300 West Broad Street

Post Office Box 27412
Richmond, VA 23269-0001

January 27, 2012

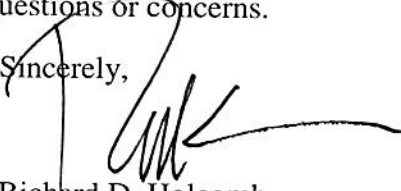
Mr. Walter J. Kucharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23219

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, 2011. The corrective action plan we are proposing in response to your findings has been provided to your staff. DMV has made progress on mitigating and/or remediating the issues identified in the audit and we look forward to working with you in the future.

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

Sincerely,


Richard D. Holcomb

RDH:dm



COMMONWEALTH of VIRGINIA

DEPARTMENT OF TRANSPORTATION
1401 EAST BROAD STREET
RICHMOND, VIRGINIA 23219 2000

Gregory A. Whirley
Commissioner

February 2, 2012

Mr. Walker J. Kucharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

Thank you for the opportunity to comment on the Commonwealth Transportation Fund audit for Fiscal Year 2011. The Department strives to maintain its good record of effective financial operations and controls, and I am very pleased that there were no significant findings and no financial internal control findings.

With respect to the comment on the Department's need to improve its Microsoft SQL Server Security, the Department has made improvements in security over its Microsoft SQL Server databases to minimize risk of malicious or unapproved modification of data. The Department is committed to dedicating the necessary resources to continue improving its Microsoft SQL Server database management and establish controls to address the weaknesses communicated.

I thank you and your staff for your assistance and guidance during this review.

Sincerely,

A handwritten signature in cursive script, reading "Gregory A. Whirley".

Gregory A. Whirley

cc: The Honorable Sean T. Connaughton
Mr. Charlie A. Kilpatrick
VDOT Executive Staff

OFFICIALS

As of June 30, 2011

Sean Connaughton, Secretary of Transportation

David Tyeryar, Deputy Secretary

Department of Motor Vehicles
Richard D. Holcomb, Commissioner

Department of Transportation
Gregory A. Whirley, Sr., Commissioner

Department of Rail and Public Transportation
Thelma Drake, Executive Director

Department of Aviation
Randall P. Burdette, Executive Director

Motor Vehicle Dealer Board
Bruce Gould, Executive Director

Virginia Port Authority
Jerry A. Bridges, Executive Director

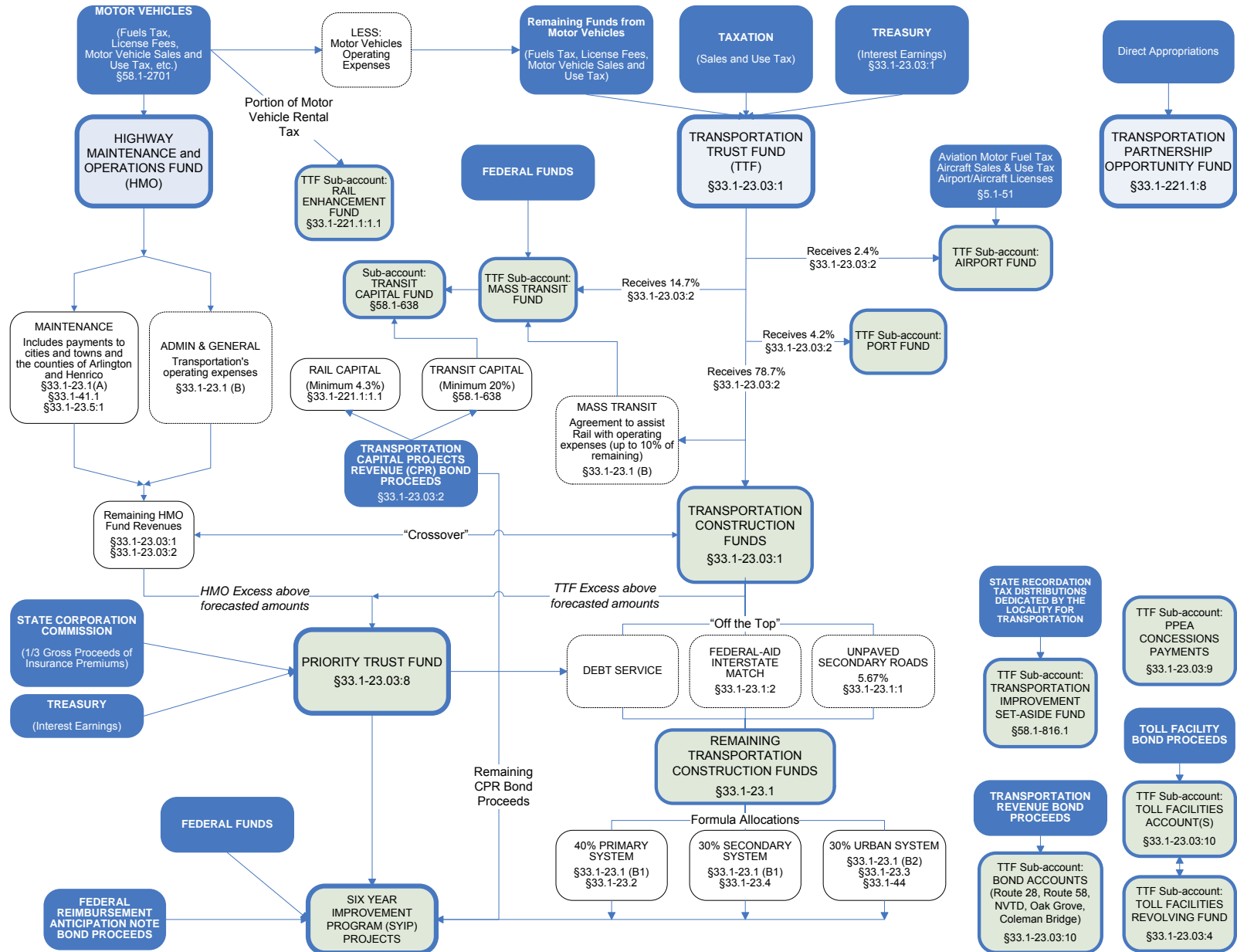
COMMONWEALTH TRANSPORTATION BOARD

Sean T. Connaughton, Chairman
Gregory A. Whirley, Sr., Vice Chairman

Jim D. Bowie	J. Douglas Koelemay
Roger Cole	Allen L. Louderback
James A. Davis	Aubrey L. Layne, Jr.
Thelma Drake	Dana M. Martin
Hollis D. Ellis	W. Sheppard Miller, III
F. Gary Garczynski	Mark J. Peake
James L. Keen	James E Rich
Cord A. Sterling	

Commonwealth Transportation Fund Flow of Resources

Appendix A



AGENCIES OF THE SECRETARY OF TRANSPORTATION
SUMMARY OF FINANCIAL INFORMATION
SOURCES AND USES
Cash Basis, For Fiscal Years 2011 and 2010

APPENDIX B

Sources:	Department of Motor Vehicles*		Department of Transportation		Department of Rail and Public Transportation		Virginia Port Authority		Department of Aviation		Motor Vehicle Dealer Board		Total Agencies of the Secretary of Transportation	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
CTF Sources (net of refunds):														
Taxes	\$ 1,059,210,271	\$ 1,012,091,660	\$ 775,481,648	\$ 767,182,399	\$ 161,010,367	\$ 157,079,150	\$ 32,542,001	\$ 31,827,515	\$ 28,773,056	\$ 30,418,062	\$ -	\$ -	\$ 2,057,017,344	\$ 1,998,598,787
Federal grants	-	-	1,092,704,988	877,929,190	35,881,127	34,465,637	-	-	-	-	-	-	1,128,586,115	912,394,827
Fees, licenses & permits	467,915,760	453,481,350	35,827,698	36,721,084	3,114,239	3,045,851	889,783	870,243	523,837	512,918	-	-	508,271,316	494,631,446
Fines & assessments	27,465,789	28,479,542	2,637,542	1,456,112	6,353	6,318	1,815	1,805	1,037	1,032	-	-	30,112,537	29,944,809
Other miscellaneous	594,792	355,143	51,516,862	35,070,152	-	597,760	-	-	663,945	1,450,836	-	-	52,775,599	37,473,890
Interest, dividends & rent	281,102	383,251	27,308,056	29,578,228	1,774,580	1,952,478	149,292	232,650	359,082	676,888	-	-	29,872,110	32,823,495
Receipts from cities, counties & towns	-	-	55,774,602	82,267,839	809,740	-	-	-	-	-	-	-	56,584,342	82,267,839
Tolls	-	-	28,772,001	27,591,449	-	-	-	-	-	-	-	-	28,772,001	27,591,449
Revenue bond proceeds	-	-	647,675,556	573,868,960	-	-	15,897,039	-	-	-	-	-	663,572,595	573,868,960
Total CTF sources	1,555,467,715	1,494,790,946	2,717,698,951	2,431,665,412	202,596,406	197,147,194	49,479,930	32,932,214	30,320,957	33,059,736	-	-	4,555,563,958	4,189,595,502
Non-CTF Sources (net of refunds):														
General fund appropriations	-	-	44,700,000	56,641,353	-	(476,858)	1,500,347	-	34,355	36,622	-	-	46,234,702	56,201,117
Port operations	-	-	-	-	-	-	83,929,360	45,410,637	-	-	-	-	83,929,360	45,410,637
Federal grants	(26,329)	(40,128)	-	-	-	-	12,214,838	3,831,683	1,305,305	1,571,508	-	-	13,493,814	5,363,063
Taxes	(117,597)	3,039,489	-	-	-	-	-	-	-	-	-	112,182	(117,597)	3,151,671
Fees, licenses, permits, fines & assessments	2,646,201	227,837	-	-	-	-	-	-	64,395	65,130	2,126,366	1,991,381	4,836,963	3,060,283
Other miscellaneous	67,699	132,908	-	-	-	-	-	2,629	-	-	4,461	42,456	72,160	178,059
Total non-CTF sources	2,569,975	3,360,106	44,700,000	56,641,353	-	(476,858)	97,644,545	49,244,949	1,404,055	1,673,260	2,130,827	2,146,019	148,449,402	113,364,830
Total sources	1,558,037,690	1,498,151,052	2,762,398,951	2,488,306,765	202,596,406	196,670,336	147,124,474	82,177,163	31,725,012	34,732,996	2,130,827	2,146,019	4,704,013,360	4,302,960,332
Net transfers in/(out)	(1,340,457,712)	(1,295,129,405)	1,162,523,961	1,064,491,667	181,755,729	197,628,582	(13,657,362)	(18,160,118)	407,778	(2,218,332)	(23,512)	(839,811)	(9,451,119)	(54,227,418)
Total funds available for use	\$ 217,579,978	\$ 203,021,646	\$ 3,924,922,911	\$ 3,552,798,432	\$ 384,352,135	\$ 394,298,917	\$ 133,467,113	\$ 64,017,045	\$ 32,132,790	\$ 32,514,664	\$ 2,107,315	\$ 1,306,208	\$ 4,694,562,242	\$ 4,248,732,914
Uses:														
Expenses (net of refunds):														
Administrative & support services	\$ 65,835,533	\$ 57,619,344	\$ 202,016,567	\$ 211,391,134	\$ 4,461,562	\$ 4,404,698	\$ 48,010,134	\$ 15,417,534	\$ 1,514,988	\$ 1,289,877	\$ -	\$ -	321,838,786	290,122,586
Air transportation programs	-	-	-	-	-	-	-	-	30,894,268	25,689,085	-	-	30,894,268	25,689,085
Capital Outlay projects	512,399	365,526	8,646,618	4,374,355	-	-	40,559,014	16,972,471	-	-	-	-	49,718,031	21,712,351
Environmental monitoring & evaluation	-	-	10,771,735	7,637,018	-	-	-	-	-	-	-	-	10,771,735	7,637,018
Economic development activities	-	-	-	-	-	-	4,704,988	4,753,602	-	-	-	-	4,704,988	4,753,602
Financial assistance to localities	-	-	361,876,952	353,597,717	-	-	-	-	-	-	-	-	361,876,952	353,597,717
Ground transportation regulation	137,639,175	135,751,545	-	-	-	-	-	-	-	-	-	-	137,639,175	135,751,545
Ground transportation planning	-	-	33,062,799	31,569,928	4,221,094	6,908,836	-	-	-	-	-	-	37,283,893	38,478,764
Ground transportation safety	6,085,349	5,092,870	-	-	-	-	-	-	-	-	-	-	6,085,349	5,092,870
Highway acquisition & construction	-	-	1,245,790,062	1,053,675,079	-	-	-	-	-	-	-	-	1,245,790,062	1,053,675,079
Highway maintenance	-	-	1,407,468,993	1,131,726,910	-	-	-	-	-	-	-	-	1,407,468,993	1,131,726,910
Mass transit assistance	-	-	-	-	302,164,370	276,759,540	-	-	-	-	-	-	302,164,370	276,759,540
Debt service, principal & interest	-	-	291,033,776	253,746,815	-	-	-	-	-	286,382	-	-	291,033,776	254,033,196
Port programs	-	-	-	-	-	-	66,643,802	64,411,700	-	-	-	-	66,643,802	64,411,700
Public transportation acquisition & construction	-	-	-	-	6,810	-	-	-	-	-	-	-	6,810	-
Rail assistance	-	-	-	-	18,248,705	51,757,475	-	-	-	-	-	-	18,248,705	51,757,475
Regulation of professions & occupations	-	-	-	-	-	-	-	-	-	-	1,931,542	1,849,505	1,931,542	1,849,505
Toll facility operations	-	-	18,680,908	22,624,103	-	-	-	-	-	-	-	-	18,680,908	22,624,103
Total uses	\$ 210,072,456	\$ 198,829,285	\$ 3,579,348,410	\$ 3,070,343,059	\$ 329,102,541	\$ 339,830,549	\$ 159,917,938	\$ 101,555,307	\$ 32,409,256	\$ 27,265,344	\$ 1,931,542	\$ 1,849,505	\$ 4,312,782,145	\$ 3,739,673,048

Source: Commonwealth Accounting and Reporting System

*Motor Vehicles CTF Sources presented above include sources collected by Motor Vehicles on behalf of the other agencies. These amounts are then transferred to the other CTF funded agencies and the remaining balance is available for Motor Vehicles' use.