

**DEPARTMENT OF
RAIL AND PUBLIC TRANSPORTATION
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 1999**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

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AUDIT SUMMARY

Our audit of the Department of Rail and Public Transportation for the year ended June 30, 1999, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- internal control matters that we consider reportable conditions; however we do not consider any of these matters to be material weaknesses;
- no instances of noncompliance with applicable laws and regulations that are required to be reported under Government Auditing Standards; and
- adequate implementation of corrective action with respect to audit findings reported in the prior year.

Our audit findings include the following:

- Establish Procedures to Bill for Contract Costs
- Improve Controls over Budgetary Information
- Properly Collect and Report Performance Measures Data

These findings are explained in detail in the section entitled, “Internal Control and Compliance Findings and Recommendations.”

January 10, 2000

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Rail and Public Transportation** for the year ended June 30, 1999. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of Rail and Public Transportation's internal control, and test compliance with applicable laws and regulations. We also reviewed Rail and Public Transportation's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of Rail and Public Transportation's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures
Revenues

Allocations
Performance Measures

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether Rail and Public Transportation's 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.

Rail and Public Transportation's 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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that Rail and Public Transportation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Rail and Public Transportation records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. 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 that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Rail and Public Transportation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions, entitled "Establish Procedures to Bill for Contract Costs," "Improve Controls over Budgetary Information," and "Properly Collect and Report Performance Measures Data" are described in the section entitled "Internal Control and Compliance Findings and Recommendations." We believe that none of the reportable conditions are material weaknesses.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Rail and Public Transportation has taken adequate corrective action with respect to audit findings reported in the prior year.

Report Distribution and Exit Conference

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

We discussed this report with management at an exit conference held on February 16, 2000.

AUDITOR OF PUBLIC ACCOUNTS

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Establish Procedures to Bill for Contract Costs

Rail and Public Transportation does not track and bill the Department of Transportation (Transportation) for project costs. Rail and Public Transportation performs work for Transportation on pass-through grants to localities and large planning consulting projects identified in Transportation's Six-Year Plan. Currently, Rail and Public Transportation has verbal agreements with Transportation to receive partial reimbursement for these projects. Furthermore, Rail and Public Transportation does not maintain adequate documentation of the work performed and the relative costs, preventing them from billing Transportation for these costs. As a result, Rail and Public Transportation is using and tying up Mass Transit funds to support these projects, which current estimates place at approximately \$4 million.

Rail and Public Transportation should work with Transportation to determine what it is currently due and request reimbursement. In the future, Rail and Public Transportation should initiate written contracts with Transportation, setting out its project responsibilities and establishing billing procedures. Management should establish procedures to track and bill project costs related to these contracts. Rail and Public Transportation should bill Transportation for reimbursements in agreement with the contract to ensure prompt reimbursement.

Improve Controls over Budgetary Information

Rail and Public Transportation does not have adequate controls to ensure state reimbursements to localities do not exceed the budget. Rail and Public Transportation reimburses localities for capital and operating public transportation expenses through grant agreements. Using a database, Rail and Public Transportation tracks payments to localities. However, Rail and Public Transportation does not compare payments as they occur to the budgeted amount. The only internal control is a monthly reconciliation from the database to the budget. This lack of control has resulted in overpayments to localities. When overpayments occur, Rail and Public Transportation requests that the locality return the money. Overpayments can cause a loss of funds for Rail and Public Transportation, inconveniences to the locality receiving the overpayment, and funding delays to other localities.

To ensure overpayments do not occur, Rail and Public Transportation should develop procedures to compare accumulated payments to budgeted amounts as they occur. This will ensure payments to localities do not exceed the budget.

Properly Collect and Report Performance Measures Data

Rail and Public Transportation does not have adequate data collection procedures for performance measures to ensure consistency and completeness. Rail and Public Transportation improperly collected and reported data for one of its performance measures entitled "Total transit vehicle service miles per \$1,000 of operating expenses." Rail and Public Transportation did not collect consistent data from each locality, nor did it collect data from every locality. Since fiscal 1996, Rail and Public Transportation has used different personnel each year to validate the reporting information sent in by the localities. This inconsistency in personnel and inadequacy in procedures caused Rail and Public Transportation to report inaccurate figures to the Department of Planning and Budget in fiscal years 1996, 1998, and 1999, and to not report anything in fiscal year 1997.

The Commonwealth uses performance measures to help assess an agency's overall performance level. Agencies develop performance measures based on their strategic plans and mission statements. Rail and Public Transportation has developed three measures to evaluate its accomplishments to Virginia. By reporting inaccurate and inconsistent information, Rail and Public Transportation is misleading the General Assembly and the citizens of the Commonwealth on the performance of the agency.

Rail and Public Transportation should develop proper data collection procedures for performance measures. These procedures should ensure that every applicable locality submits accurate and consistent information. By doing this, the General Assembly and the citizens of the Commonwealth will have accurate information on Rail and Public Transportation's performance.

AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

The Department of Rail and Public Transportation reports to the Secretary of Transportation and the Commonwealth Transportation Board, which provides policy oversight. Rail and Public Transportation seeks to establish, maintain, improve, and promote public transportation services and passenger and freight rail transportation systems.

Funding Sources

Rail and Public Transportation has three primary sources of revenue:

Highway Maintenance and Operating Fund

Rail and Public Transportation received \$7,612,900 from the Highway Maintenance and Operating (HMO) Fund in fiscal 1999. HMO funds pay for a portion of Rail and Public Transportation's administrative costs, and during fiscal 1999, it included a one-time special allocation for the Virginia Beach/Norfolk light rail system.

Mass Transit Fund

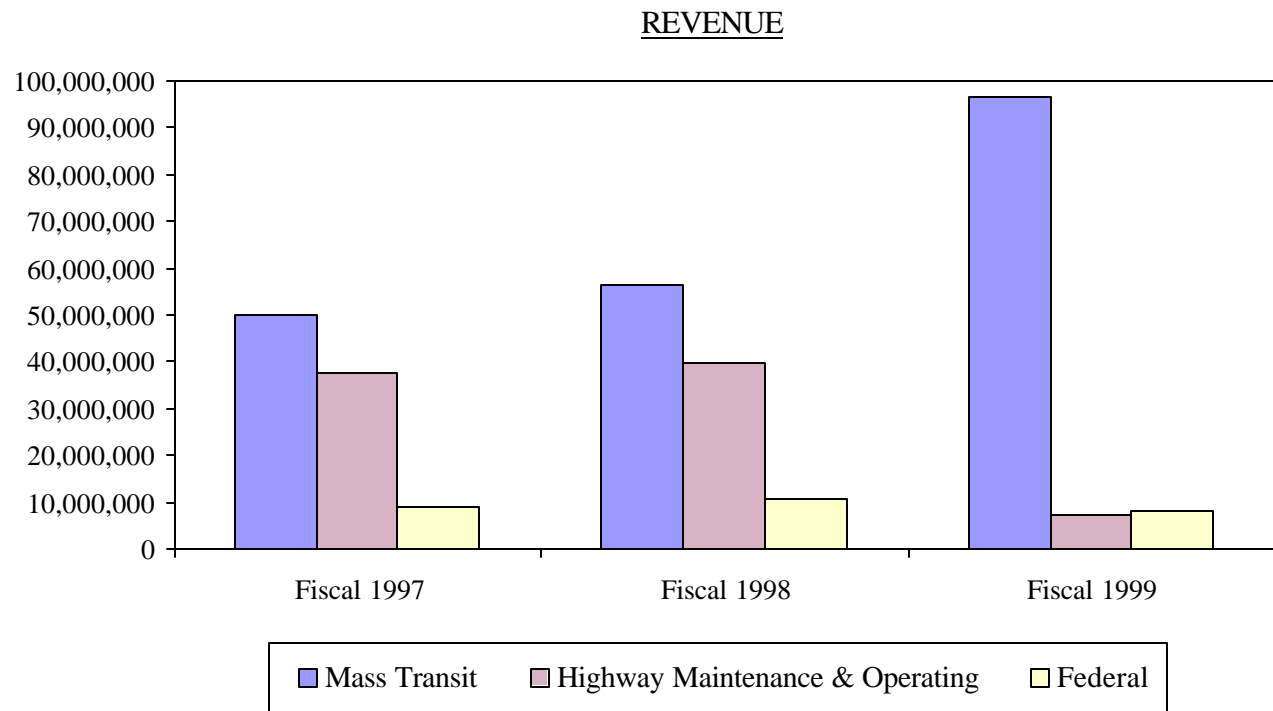
Rail and Public Transportation received \$96,553,820 from the Transportation Trust Fund (TTF) in fiscal 1999. The Commonwealth uses TTF funds for highway and port construction and maintenance, mass transit, and air travel. Rail and Public Transportation receives 14.5 percent of the TTF funds for mass transit with the remainder going to the Departments of Transportation and Aviation and the Virginia Port Authority. Rail and Public Transportation's allocation of the TTF will increase 0.2 percent in fiscal 2000 to 14.7 percent. Rail and Public Transportation uses its portion of the TTF as follows:

- 73.5 percent for urban and non-urban areas that fund public transportation systems for operating expenses such as administration, fuels, lubricants, tires, maintenance parts, and supplies under a distribution formula using total operating expenses. Areas receive payments in advance either quarterly or monthly.
- 25.0 percent for capital purposes based on eligible capital expenses less any federal assistance received. 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.

Federal Highway, Railroad, and Transit Administration Funds

Rail and Public Transportation also received \$8,307,976 in funding from the Federal Highway, Railroad, and Transit Administrations during fiscal 1999. Rail and Public Transportation uses the federal revenues to support localities' and transportation organizations' mass transportation programs, freight rail programs, and special transportation need programs for the elderly and disabled.

The following chart illustrates Rail and Public Transportation's revenues for the Mass Transit Fund, the Highway Maintenance and Operating Fund, and the Federal Fund for three years ending in fiscal 1999.



Federal revenue has remained fairly level since fiscal 1997. However, fiscal 1999 showed a sharp increase in the Mass Transit Fund while showing a sharp decrease in the Highway Maintenance and Operating Fund. This change in funding reflects a legislative change in the allocation. For fiscal 1999, the General Assembly increased the Mass Transit Fund's percentage of the Transportation Trust Fund by 6.1 percent, bringing the total funds allocated to 14.5 percent. Conversely, the General Assembly decreased the funding from the Highway Maintenance and Operating Fund, which in future years is to fund only Rail and Public Transportation's administrative needs. However, this year it also included a one-time allocation for the Virginia Beach/Norfolk light rail system.

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

Richmond, Virginia

As of June 30, 1999

Shirley J. Ybarra, Secretary of Transportation

Leo J. Bevon, Director of Rail and Public Transportation

COMMONWEALTH TRANSPORTATION BOARD

Shirley J. Ybarra, Chairman

Leo J. Bevon	Lorinda G. Lionberger
Roy Parrish Byrd	L.C. "Sonny" Martin
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David R. Gehr	Max B. Porter
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Benjamin R. Humphreys, Jr.	Kevin M. Sabo
J. Kenneth Klinge	Olivia A. Welsh
Bryan E. Kornblau	Ulysses X. White