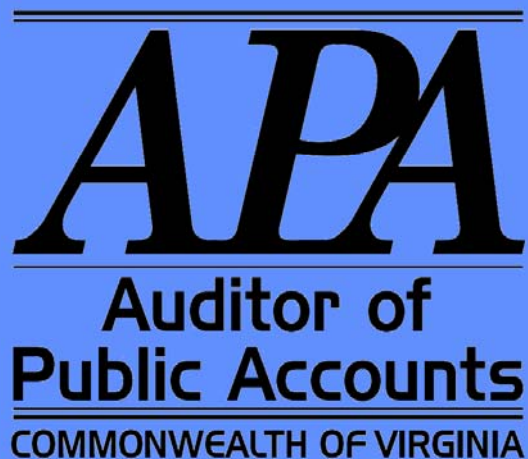


**AGENCIES OF THE SECRETARY
OF TRANSPORTATION**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**



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 (VPA) – 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, 2008, 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;
- no instances of noncompliance with applicable laws and regulations that are 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 Findings and Recommendations” starting on page one.

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INTERNAL CONTROL AND COMPLIANCE **FINDINGS AND RECOMMENDATIONS**

Findings and recommendations are listed below by agency and are either first year or repeat findings as described below:

- First Year Finding – items brought to the attention of management during the course of this year’s audit, and management has or is developing their plans for taking corrective actions; or
- Repeat Finding - corrective actions taken by management because of their prior year audit findings did not adequately reduce risk to an acceptable level.

DEPARTMENT OF MOTOR VEHICLES

Improve Vehicle Rental Tax Collection Controls – First Year Finding

The DMV lacks adequate segregation of duties in the Vehicle Rental Tax Return Division. Each month, the Senior Tax Examiner receives both the original tax returns from rental companies with attached checks for any taxes due. Although the Examiner does not deposit the checks, the Examiner does create the delinquency notices for non-filing or non-payment to rental companies.

This lack of segregation of duties provides the Senior Tax Examiner with the opportunity to misappropriate a check, destroy the original rental tax return, and conceal the tax liability by showing a zero return in the rental tax system while withholding the issuance of a delinquent notice to the rental company. Rental tax revenues totaled \$80 million for fiscal 2008; of this amount, DMV receives about \$34 million (42 percent), via check and about \$46 million in rental revenues through automated clearing-house payments. The automated clearing-house provides proper segregation of duties for these transactions since it deposits cash directly to the state’s bank account.

Best practices stress that management segregate certain functions as part of the internal control system established to prevent, detect or correct accounting mistakes and misappropriation of assets. The segregation of cash handling and the billing function is a basic internal control.

We recommend that management develop procedures that provide proper segregation of duties between billing and check handling to provide adequate internal controls that prevent and/or detect errors, omissions, or misappropriation of assets within the Rental Tax Division.

Ensure Completeness of Vehicle Sales and Use Tax – First Year Finding

DMV does not have adequate controls to ensure the completeness of motor vehicle dealer reported sales and use tax. DMV processed \$367 million in vehicle sales and use taxes from dealers during fiscal 2008.

The online dealer system allows dealers to enter sales information in real-time; and the dealers send the appropriate sales tax payments to DMV based upon system balances. The DMV requires dealers enrolled in this program to provide documentation for sales transactions including vehicle titles signed by the buyer and corresponding title and registration applications. This documentation is the only way DMV can verify the completeness of self-reported online sales by the Dealer community.

However, the On-line Services Division does not have a procedure to identify missing documentation. Without proper support documenting the agreed-upon sales price, DMV cannot validate the sales prices keyed by dealers in the online system.

DMV processes about 2,000 vehicle transactions each day making it impractical to verify the dealer's submission of documents for every transaction. Currently DMV matches documentation to the online-system on a sample basis, but the sample comes from a population of existing documents. By sampling from existing documents, DMV cannot identify if there are any missing documents to support electronic submissions.

We recommend DMV develop a procedure to verify that dealers submit the required documentation on a sample basis and document the results. DMV should sample the population of sales prices reported in the on-line system, rather than the population of existing documents. Staff should notify dealers who fail to submit documents and take appropriate corrective or disciplinary action. Further, in the long-term, DMV may wish to consider the cost-effectiveness of automating this process using document imaging to reconcile 100 percent of dealer-reported sales transactions.

Improve Controls over the International Registration Plan Process – First Year Finding

Once a month, Virginia settles its accounts with other states participating in the International Registration Plan through an independent clearinghouse company, International Registration Plan, Inc. The clearinghouse calculates the net amount owed by or due to Virginia by each state and processes automated clearinghouse payments. Most states, including Virginia, use the clearinghouse to process those payments.

DMV reconciles the information in their VISTA system to the data sent to the clearinghouse during pre-settlement and before the final settlement of payments. The auditor reviewed the reconciliations for the months ended January through June 2008 to assess the adequacy of the process and identified the following deficiencies.

- No supervisory review for any of the six reconciliations tested.
- No sufficient support for the months of January, February, and June 2008 to facilitate supervisory review.
- No resolution of reconciling items from the May clearing process as of August 2008.
- Amount DMV paid by check to non-participating states in January, May, and June did not agree with the amount owed per the Clearinghouse report. These differences totaled about \$42,000.
- An unresolved discrepancy for the months of January (\$200,653.60) and May (\$800.32) between what the Clearinghouse and the VISTA reports indicating Virginia owed other participating jurisdictions.

The monthly reconciliation helps ensure that Virginia receives the correct amount due and remits the correct amount owed to other jurisdictions. A reconciliation process that lacks timeliness, management review, and contains unresolved discrepancies can result in lost revenue to the state or insufficient payment to other participating states. Further, management cannot make decisions about resolving payment discrepancies without reviewing the reconciliations.

We recommend that management examine the reconciliation process and develop procedures that provide an adequate audit trail, including supervisory review, and require reporting to executive management if unresolved discrepancies exceed an amount established by management. We further recommend that management assess the risk associated with discrepancies between the Clearinghouse and VISTA systems and determine if resolution of the underlying causes is cost effective.

Improve Information Security Program – First Year Finding

Overall, we believe DMV has an adequate security program and the recommendations and findings in this report should further enhance their program.

Security Awareness Training

DMV does not require or provide annual security awareness training for its branch employees who handle sensitive information. In order to enhance the safeguarding and handling of confidential data, staff should receive annual training in areas such as e-mail safety, malicious code and viruses, social engineering, sensitive data protection, password management, and policies and procedures. While management regularly sends e-mails regarding security awareness, this information does not substitute for a formal program as required by Commonwealth security standards.

We recommend that DMV update its policy to require annual security awareness training for all staff, develop and implement a formal training program for all employees, monitor attendance, and maintain signed acknowledgements of training.

Risk Management Plans

We found that DMV has not updated its Business Impact Analysis (BIA) or Risk Assessment (RA) since August and October 2005, respectively. Outdated risk management plans impede the department's ability to mitigate risk and maintain effective continuity of operations and disaster recovery plans. The Commonwealth's IT security standard requires agencies to evaluate and update both the BIA and RA at least every three years, or earlier if warranted. Motor Vehicles plans to update its risk management plans in summer 2009.

We recommend that the DMV review and update its BIA and RA and use the updated risk management plans to update its continuity of operations and disaster recovery plans.

Acceptable Use Agreements

DMV's Information Systems Security Program does not include a requirement that employees must sign an acceptable use agreement. We found that an employee with administrator privileges to a critical and sensitive system had not signed a document agreeing to abide by the department's acceptable use policy. By not requiring staff to sign agreements, DMV risks the confidentiality of its sensitive data and misuse of its critical systems. Commonwealth standards mandate that agencies require documentation of IT system users' acceptance of the agency's acceptable use policy before, or as soon as practicable after, gaining access to agency IT systems.

We recommend that DMV update its acceptable use policy to require employees to sign acknowledgements in accordance with Commonwealth standards. The Department should also ensure that all employees have signed the acceptable use agreement.

Properly Complete Employment Eligibility Verification Forms – Repeat Finding

DMV personnel continue to improperly complete Employment Eligibility Verification Forms (Form I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. This guidance states the employer has responsibility for ensuring the timely and proper completion by the employee of Section 1. Also, the employer must document the issuing authority and document number for any document examined to establish work eligibility or identity. Additionally, the employer lists their address on each completed form. Regulations also require the examination of a document in Section 3 only if the employee has an expired work authorization.

In our sample of eighteen forms completed in fiscal year 2008, we found one or more of the following errors on nine of the forms.

- Employer did not complete Section 2 Expiration date on two forms.
- Employer did not properly complete Section 2 Issuing authority on six forms.
- Employee did not sign and date Section 1 on or before the certification start date on three forms.

- Employer did not properly complete Section 2 Certification on the first day of employment on two forms.

We recommend that management develop steps to continuously review the I-9 process, train human resources staff on the requirements of completing I-9 forms, and develop procedures to continuously review all or a sample of I-9 forms for compliance with federal regulations. Management should ensure that its human resources staff use the most updated I-9 form issued by the Department of Homeland Security and the US Citizenship and Immigration Services for verification purposes of employee eligibility. The federal government has increased its enforcement efforts requiring employers to ensure that all new employees are legally entitled to work in the United States. This increased enforcement makes having a good I-9 process to complete I-9 forms in place more important than ever before. Weaknesses in the I-9 process could result in fines and penalties against the department.

DEPARTMENT OF TRANSPORTATION

Improve Application Monitoring Processes – First Year Finding

The Department of Transportation (VDOT) does not adequately monitor logs of database or system administrators' access and activity for applications on the Equipment Management System which contains sensitive data. The Commonwealth's security standard directs agencies to identify the steps necessary to monitor and record IT system activity commensurate with data sensitivity and risk.

While the IT Partnership is responsible for monitoring and logging at the infrastructure level, VDOT is responsible for maintaining security of its applications, including databases and other software, used to access sensitive data residing on the infrastructure. Since the system and database administrators are the data custodians and have the highest level of access to sensitive data, it is important to document and implement a monitoring and logging procedure capable of detecting involuntary or forced alteration to VDOT's sensitive data for these high-level accounts. VDOT should also consider possible performance impact to its IT systems when determining monitoring and logging levels.

We recommend that VDOT dedicate the necessary resources to develop and implement the appropriate procedures to monitor logs of database and system administrators' access and activity on its IT systems containing sensitive data. After the auditor brought this to management's attention, management began implementing corrective action.

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

Improve Controls over Non-Formula Public Transportation Grant Management – First Year Finding

During our test of non-formula public transportation grant awards and payments; three of six grants tested did not have documented justification of the decision to award based on consistent, objective criteria and 16 of 38 grant payments tested lacked sufficient documentation supporting the grantee invoices. These payments to the Greater Richmond Transit Company for capital grants totaled \$474,269. The total budget for non-formula public transportation financial assistance in fiscal 2008 was \$36.8 million.

Further, DRPT did not have procedures for developing consistent evaluation criteria for non-formula public transportation grants or prescribing the documentation grantees must submit for payments of those grants. Lack of a consistently applied process for awarding these grants and processing payments increases the risk that DRPT may make awards to inappropriate applicants or improper payments to grantees.

DRPT is acting to correct this deficiency. Beginning in May 2008, the department developed a grantee handbook and conducted grantee workshops to improve the grant payment process. By fiscal 2010, the Chief of Public Transportation intends to complete a similar manual for the department project managers who approve invoices for payment as well as implement consistent procedures for both department project managers and members of the executive award committee to make grant award decisions and document the criteria used to make such decisions consistently.

We recommend DRPT prioritize implementation of these controls and ensure the design and implementation is sufficient to prevent improper grant awards or payments for disallowed expenses.

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), Aviation (DOAV), the Motor Vehicle Dealer Board (MVDB), the Board of Towing and Recovery Operations (BTRO), and the Virginia Port Authority (VPA). These seven agencies employ nearly 12,000 people and spent a combined \$4.3 billion in the year ending June 30, 2008.

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 2008 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 permit 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 supported by over 2,000 employees at a cost to the Commonwealth of \$245.2 million, including transfers to localities, during the year ending June 30, 2008.

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. The contract requires CBN to build a facility in the Commonwealth, which is underway in Danville, VA, to produce the licenses centrally. Under this contract, customer service centers will no longer produce licenses, but CBN will print and mail the licenses directly from the facility in Danville, Virginia.

The project received development approval from the Information Technology Investment Board (ITIB) at their October 2008 board meeting. DMV plans to implement this new licensing methodology in June 2009. However, should this deadline not be met, they have negotiated an extension with the current license producer, Digimarc, to issue licenses through October 2009.

The new licenses will have increased security features making it very difficult to commit fraud. This project and its results will support compliance with the REAL ID Act set forth by the federal government. Commonwealth citizens will receive their new license when their current license expires. DMV anticipates issuing 11million licenses in this new format over five years.

Integrated Systems Redesign

DMV remains in the initiation phase of a project to replace and reengineer their Citizen Service System (CSS). This new system will transform three major business areas; driver services, vehicle services, and motor carrier, into a more modern and user-friendly system. DMV is currently defining the scope, goals, objectives and vision of the system, as well as performing a business process analysis, identifying communications channels and securing funding for the duration of the project.

The new system will be more flexible and secure to allow for easier changes to accommodate legislation, new technology and customer demands. Project planning costs through October 31, 2008 total \$4.5 million against a total project budget of \$32.6 million, and will take approximately 5 to 6 years to complete.

REAL ID

In May 2005, Congress passed the REAL ID Act that creates national standards for the issuance of state driver's licenses and identification cards. The Act, which became effective May 11, 2008, requires motor vehicle agencies to verify source documents before issuing a drivers license or identification card. Additionally, motor vehicle agencies can accept only certain documents and facilities must meet security standards established by the U. S. Department of Homeland Security, and employees who issue the credentials must undergo criminal background checks and receive intensive fraudulent document training.

In January 2008, U.S. Department of Homeland Security issued the final regulations for the implementation of REAL ID. Virginia received an extension until 2009 to implement compliant processes, which will allow a complete review of these regulations. DMV is currently reviewing regulations and developing an implementation plan.

DEPARTMENT OF TRANSPORTATION

VDOT builds, maintains, and operates the Commonwealth's roads, bridges, and tunnels. Virginia has the third largest state-maintained highway system in the United States with an annual budget of approximately \$4.8 billion. 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, two toll roads, one toll bridge, four ferry services, and a number of rest areas and commuter parking lots. VDOT has over 9,000 employees, making it 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 two largest 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.

VDOT received an initial unsolicited conceptual proposal from Fluor-Transurban in 2002. By 2007, Fluor-Transurban had designed, received all necessary federal and environmental approvals, provided opportunity for public comment, and signed a comprehensive agreement to construct the new lanes at a total cost of \$1.936 billion for the project.

This project, which has just begun construction, has a unique financing arrangement. The state will invest \$409 million in to the completion of the project while Fluor-Transurban will invest \$349 million in private equity, \$589 million in private activity bonds, and \$589 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. Should Fluor-Transurban meet contractually specified financial benchmarks, the Commonwealth could earn back up to 30 percent of annual gross toll revenues.

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 are reversible lanes, northbound in the morning and southbound in the evening and similar to the 495 lanes will be 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. Through June 30, 2008 VDOT has spent \$11.5 million on the preliminary planning and environmental work for this project.

The interim agreement estimates the total cost for the design and construction of these lanes to be \$1.1 billion, including financing costs. Fluor-Transurban plans to fund 100 percent of the project costs once they reach a comprehensive agreement with VDOT.

Route 28

VDOT contracted with Rt. 28 Corridor Improvements, LLC to design and construct improvements to increase the capacity on six interchanges. The contract also has provisions for widening portions of Route 28 to eight lanes of highway and also for adding further interchanges as funding becomes available.

This PPTA project has multiple methods of funding. In the original contract, the Fairfax County Tax District agreed to pay for 75 percent of the improvements made on Route 28 which would cover all planned construction costs. VDOT paid the remaining 25 percent for project management and right-of-way acquisition. The original contract value was \$198.3 million, of which \$169 million was fixed price. The remaining was an allotment for right-of-way acquisitions that would be paid directly by VDOT.

As VDOT anticipated, the scope of this project has grown to include three and a half additional interchanges and additional lane widening that was not included in the initial contract. VDOT has financed these additions in multiple ways. Loudoun and Fairfax County have fully-financed some additions, Proffer Funds have covered some additions, and VDOT has paid for others. As of June 30, 2008, the total contract value is \$326.8 million.

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 is required to 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 outstanding note to Fairfax County was paid in full and funding was transferred to the Department of the Treasury to fund an escrow for the defeasance of the outstanding bonds (Series 1989A and series 2002).

Camp 30 Acquisition

In April 2006, VDOT entered into several agreements with Fairfax County and the Fairfax County Economic Development Authority to plan, design, finance, and construct several joint public use facilities on adjoining land owned by the Commonwealth of Virginia and Fairfax County commonly referred to as Camp 30, which is bounded by Interstate Route 66, West Ox Road, and the Fairfax County Parkway in Fairfax County. These facilities will include a public safety and transportation operations center, a forensic facility, a bus operations facility, a Commonwealth of Virginia administration building, and a transportation road maintenance facility.

The Fairfax County Economic Development Authority issued bonds totaling \$96.5 million to fund VDOT's portion of the construction costs. VDOT will make payments to the Authority to cover the debt service of these bonds through 2026.

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 assured the ITIB they were committed to following the system requirements established by the Virginia Enterprise Applications Project (VEAP) office during its planning phase for a new enterprise financial management system. The VEAP team, due to lack of funding, placed

the enterprise financial system project on hold in January 2008; however, VDOT was an active participant in developing the requirements and agreed that they were relevant to their business needs. VDOT estimated the system will cost about \$38 million, including software and expert systems implementation services, and anticipates completion by June 2012.

Following ITIB approval, VDOT released a request for proposal (RFP) and required vendor responses by September 2008. VDOT is currently evaluating the responses to their RFP and hope to select a software and system implementer sometime in the spring of 2009.

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 of the project which has a scheduled construction starting date of March 2009.

On November 1, 2008 VDOT and the Authority also reached an agreement on the transfer of control for the Dulles Toll Road. This transfer guarantees that all revenues generated by the Dulles Toll Road will support transportation improvements within the corridor, including the Metrorail extension and roadway improvements. With this agreement in place, DRPT will no longer have to pass through toll revenues to the Authority.

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 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. The 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.

DMV provides administrative and fiscal services for the MVDB who collected \$2.4 million in the fiscal year ending June 30, 2008; \$2.1 million of which were licensing and certification fees. Operating expenses for the MVDB totaled \$1.9 million for the period ending June 30, 2008.

BOARD OF TOWING AND RECOVERY OPERATORS

The 2006 Virginia Acts of Assembly created the Board of Towing and Recovery Operators (BTRO) 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 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 their expenses. The Board may also revoke, suspend, or fail to renew a license for violation of regulations. For the year ended

June 30, 2008, the Board spent \$218 thousand of an advance Treasury loan to implement a licensing system and develop licensing and billing processes and begin collecting licensing fees. The Board estimates it will be capable of funding its operations as well as repay its Treasury loans on or before the July 1, 2010 repayment deadline.

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 enables 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 ports.

The Port Authority does not receive General Fund appropriations, but generates revenue from port operations (i.e., special revenues). In fiscal year 2008, the Port Authority and Virginia International Terminals (VIT) generated \$260.2 million in operating revenue. Of this special revenue, the Port Authority used \$255.6 million for operations, including general operating expenses, certain debt service expenses, and some acquisition, construction or improvements of major capital facilities. The Port Authority used the remaining revenue to fund required increases in reserve accounts and transferred a portion back to VIT for additional capital needs.

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

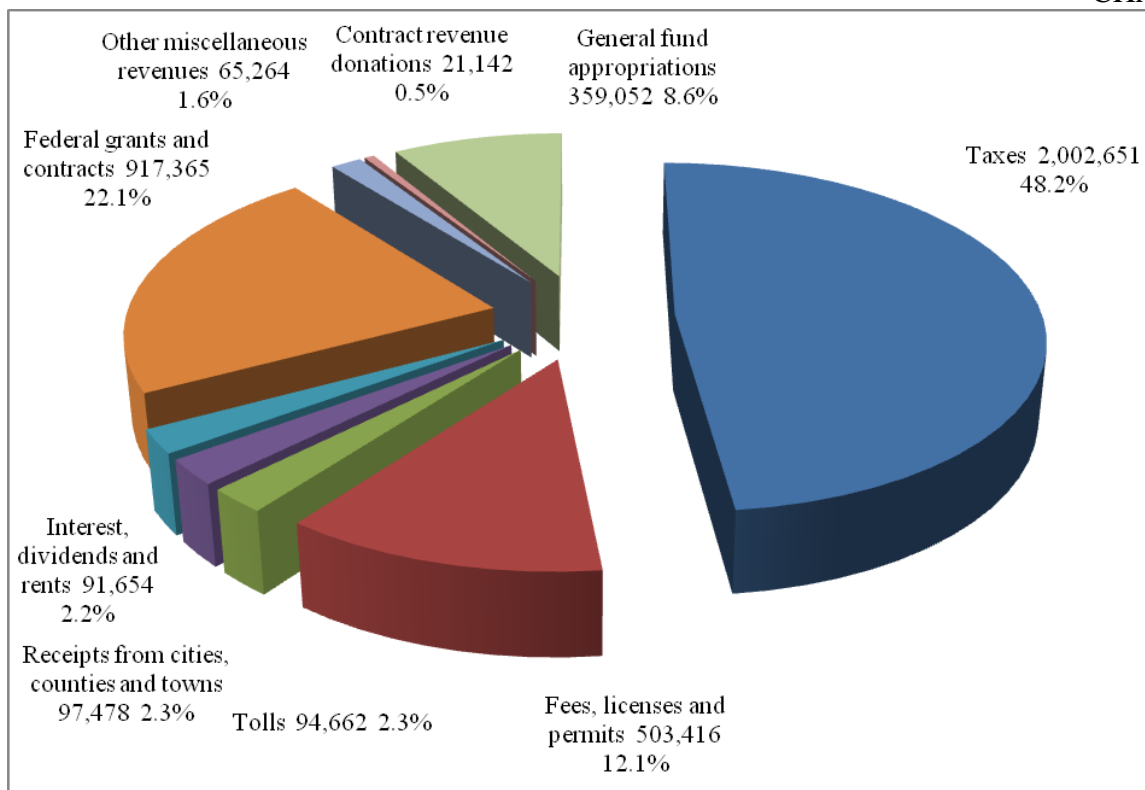
Source of Funds

In general, 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 2008, these sources generated \$4.15 billion in transportation funding (excluding port authority revenue).

2008 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, 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 2008, 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 2008, federal transportation revenues were \$917.4 million or 22.1 percent of the total revenues allocated for transportation funding in the Commonwealth compared to \$663.7 million (15.7 percent) in 2007.

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 future appropriations of future FHWA reimbursements. The total FRANS liability for the Commonwealth at June 30, 2008 is \$643.2 million.

Toll Revenue

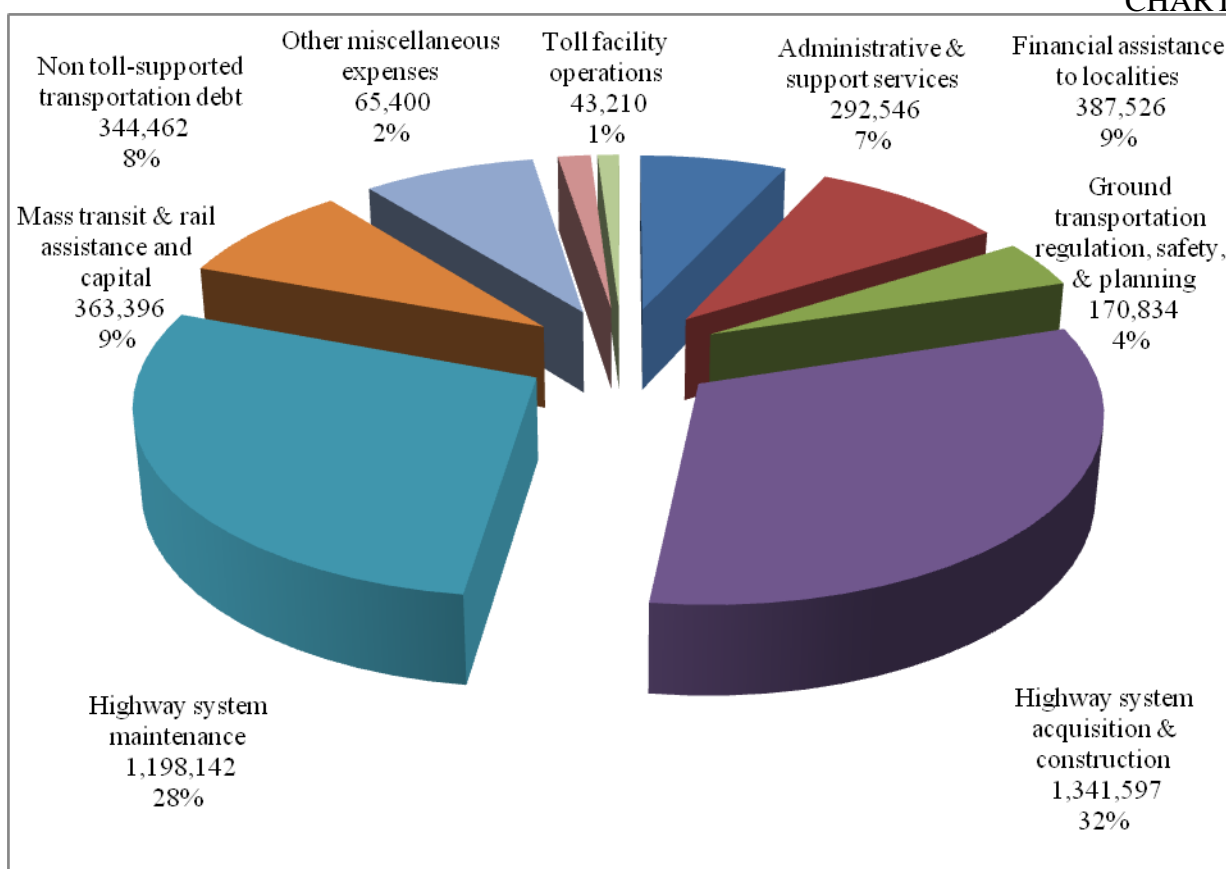
Toll facilities provide a portion of Transportation's revenues and arise from the operation of three major toll facilities located in Northern Virginia, Central Virginia, and Hampton Roads. The facilities are the Omer L. Hirst – Adelard L. Brault Expressway (the Dulles Toll Road), the Powhite Parkway 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, 2008 the Commonwealth collected \$83.2 million in toll revenue; \$1.3 million more than the \$81.9 million collected during the year ended June 30, 2007. Appendix B reflects the details of revenue sources in for these toll facilities.

Allocation and Use of Funds

In fiscal year 2008, the agencies under the Secretary of Transportation, excluding the independent Port Authority, spent over \$4.2 billion, or 10.5 percent of the \$40 billion statewide annual operating budget. Maintenance and construction of highways were the largest uses of these funds.

2008 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 2008 VDOT spent \$1.2 billion on highway maintenance and \$215.7 million on administrative operations.

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 Transportation Trust Fund (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 received. Capital expenses include items such as replacement buses or rail cars, stop signs, and construction of terminals and stations; and

- 1.5 percent for special projects such as ridesharing, experimental transit, and technical assistance. Ridesharing programs are to 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 2008, DRPT spent \$195.5 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 2008, DRPT spent \$36.3 million on Rail assistance; \$24.2 million from the Rail Enhancement Fund and \$3.96 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.

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, but not capitalizable; 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 2008, the Port Authority received revenues of \$36 million from the TTF through the Commonwealth Port Fund and generated \$260.2 million in revenue between Port Operations and Virginia International Terminals, Inc. With this revenue and remaining funds from fiscal year 2007, the Port Authority incurred \$255.6 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.

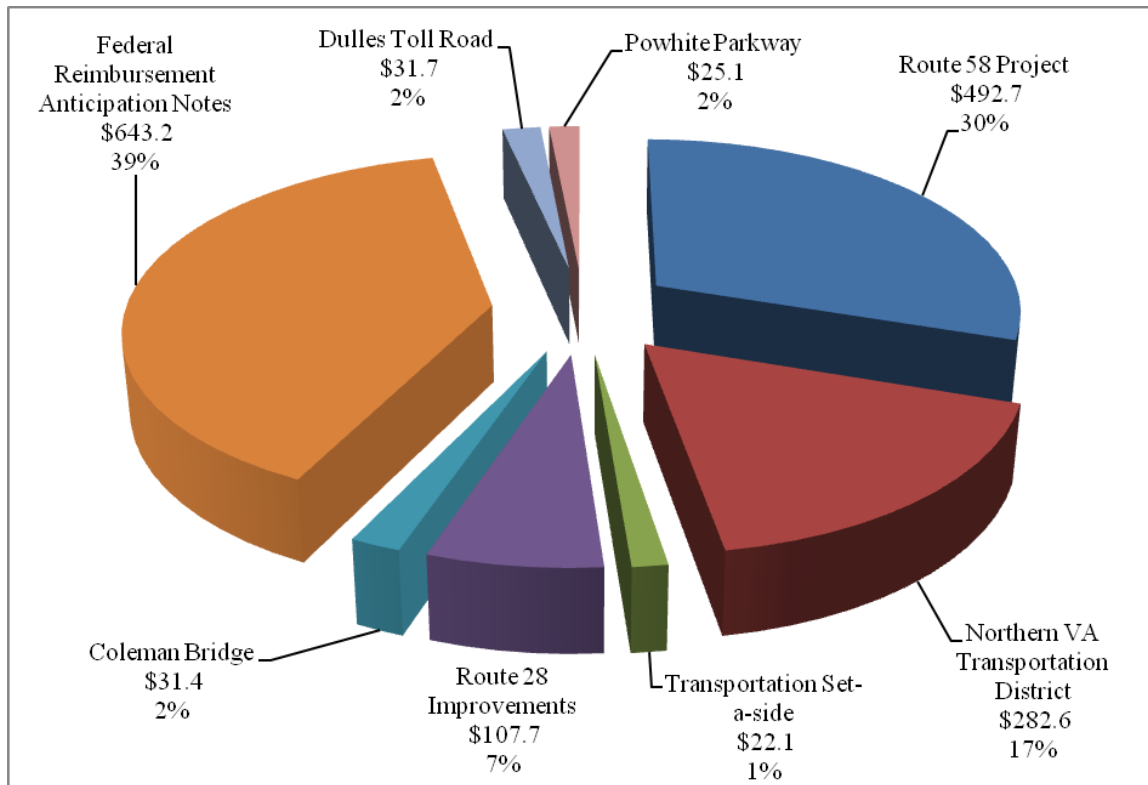
Since the Authority is a component unit of the Commonwealth, this report does not include that financial activity. We issue a separate report on the financial statements of the Virginia Port Authority and our website has the report, www.apa.virginia.gov.

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. Appendix B contains an analysis of 2008 activity in these funds and any new bond issues pursuant for these projects which we discuss below. As of June 30, 2008, total bonds outstanding for VDOT were \$1.6 billion.

2008 Transportation Bonds Payable Outstanding
(dollars in millions)

CHART C



Source: Commonwealth Accounting and Reporting System

Federal Highway Reimbursement Anticipation Notes

FRANS have a dedicated revenue stream to pay debt services and unlike other debt, this debt does not relate to a specific geographical area. Transportation 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 12, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

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, 2008. 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, 2008 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, their 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
- Performance measures

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 December 9, 2008 and December 16, 2008. 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/clj



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


December 30, 2008

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, 2008. Attached are the corrective actions we are proposing in response to your findings. 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

JAN 5 '09 9:17

**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, 2008**

APA Finding – Improve Vehicle Rental Tax Collection Controls (First Year Finding)

DMV Corrective Action Plan:

The Rental Tax Division and the Financial Management Service Division will alter the current rental tax billing and check handling process. The new process will require the MCTS Mail Clerk to deliver all rental tax returns and checks to the Financial Management Office (FMS). FMS Staff will establish the rental tax returns on the COMP2 system. Once the account is established, revenue will be posted to the proper CSS revenue account and the daily deposit will be prepared. Original rental tax returns will be forwarded to Tax Services for detail only information to be posted to COMP2. FMS can only establish accounts and Rental Tax can only add to an established revenue account. FMS does not have access to the portion of COMP2 that allows entries that create zero, non-filer or delinquent rental tax returns.

The above process provides proper segregation of duties that prevent and/or detect errors, omissions and misappropriation of assets within the Rental Tax Area and will be documented as the formal procedures for Rental Tax Billing and Check Handling.

FMS and the rental tax management staff have also agreed to explore the possibility of moving the rental tax tasks currently performed by FMS to a work area within Motor Carrier & Tax Services. Should this occur management will insure that an appropriate separation of duties is maintained.

Responsible Executive:

Rena Hussey, Assistant Commissioner, Motor Carrier and Tax Services

Completion Date:

November 30, 2008 – Achieve segregation of duties by having FMS staff involvement.
January 31, 2009 - Having the tasks moved to another work area within Motor Carrier and Tax Services.

**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, 2008**

APA Finding – Ensure Completeness of Vehicle Sales and Use Tax (First Year Finding)

DMV Corrective Action Plan:

The Online Dealer/Fleet Work Centers short-term solution is to select 8.25% of the dealers that have processed transactions from each source code once a month (99% theoretical coverage). Once the dealers have been selected, the Auditors/Reviewers will audit the work to verify that all transactions and revenue have been received.

The long-term solution to address this finding will be researched through the agency's CSI effort. We believe this can be accomplished in phase 1 of CSI, which encompasses customized reporting. The final solution will ensure that all required documents are received from the On-line Dealers and that the documents are complete and accurate.

Responsible Executive: Karen Grim, Assistant Commissioner, Driver, Vehicle and Data Management Services

Completion Date: Short-term solution – January 9, 2009

Long-term solution - January 31, 2012

**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, 2008**

APA Finding – Improve Controls over the International Registration Plan Process (First Year Finding)

DMV Corrective Action Plan:

Some remedial steps have already been taken to address immediate concerns. These include:

- 1) verbal instruction to staff on appropriate documentation to support review and validation of the reconciliation process,
- 2) inclusion of a supervisor's review and sign-off on all reconciliations,
- 3) resolution of all outstanding reconciling items, and
- 4) verbal instruction to staff on techniques to identify the source of discrepancies between the VISTA-RS transmittal reports and those of the IRP Clearinghouse, and instruction on how to make appropriate corrections during the pre-netting adjustment period such that future discrepancies of this nature will not exist in the netting and post-netting environment.

Management will also be completing a thorough evaluation of the associated procedures, updating our documented procedures to reflect appropriate changes, and developing a formal reconciliation sheet to address all the deficiencies identified. As recommended, these procedures will provide an adequate audit trail, include supervisory review, and require reporting to management if unresolved discrepancies exceed an amount and/or time period established by management.

With regard to the recommendation that management assess the risk associated with discrepancies between the Clearinghouse and the VISTA-RS system and determine if resolution of the underlying causes is cost effective, we have researched the discrepancies identified and believe we have a reasonable understanding of the primary causes for differences. The discrepancies noted were primarily caused by duplicate vehicle identification numbers which results in the Clearinghouse rejecting the individual transaction whereas the VISTA-RS system does not have a similar edit. We will discuss this situation with the VISTA-RS system vendor to determine if system changes are feasible, desirable and cost beneficial. Regardless of the outcome of this evaluation, these discrepancies should procedurally be identified and resolved prior to funds netting which should result in the two systems fully balancing prior to and after netting occurs.

Responsible Executive:

Rena Hussey, Assistant Commissioner, Motor Carrier
and Tax Services

Completion Date:

April 30, 2009

**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, 2008**

APA Finding – Improve Information Security Program (First Year Finding)

DMV Corrective Action Plan:

DMV currently has a draft IT Security Policy that is expected to be approved by management by the spring of 2009. This policy specifically addresses the issues addressed by the APA. Training will be delivered utilizing the Commonwealth's Automated Training Website (knowledge center) maintained by the Department of Human Resources Management.

The risk assessment and business impact analysis will be updated/completed by the end of 2009.

It should be noted that we now have a signed Information Security Policy Acknowledgement form from the individual noted in the audit point.

Responsible Executive:

Dave Burhop, Chief Information Officer

Completion Date:

March 31, 2009 – IT Policy Implementation
March 31, 2009 – Acceptable Use Agreement
Implementation
April 30, 2009 – Security Awareness Training
Implementation
April 30, 2009 – Initial Survey for RA and BIA
May 31, 2009 – Implementation Plan for RA and BIA
December 31, 2009 – Updated/New RA and BIA

**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, 2008**

APA Finding – Properly Complete Employment Eligibility Verification Forms (Repeat Finding)

DMV Corrective Action Plan:

DMV's Human Resource Office is implementing a two prong review process to verify compliance with completion of the I-9's:

1. Human Resource Consultants will ensure that I-9s are completed and verified on employees' first work day;
 - a. Headquarter new employees will meet with the Consultant on their first work day and complete the I-9 and other required paperwork.
 - b. Field new employees will meet with the hiring manager on their first work day to complete the I-9 which will be faxed, along with supporting documentation, that day to the appropriate Consultant for review and verification. Incomplete or inaccurate I-9's will be returned immediately to the hiring manager for correction. This process will be completed on employees' first work day.
2. Completed and verified I-9's and supporting documentation will be forwarded to an HR Assistant who will do a final review of the I-9's to ensure it is completed correctly and that the supporting documents are attached. Any I-9's that are not completed correctly will be forwarded to the HR Manager to address with appropriate Consultant. This process will be completed within the first three days of the employee's first work day.
3. Completed and verified I-9's with supporting documentation will be placed in the Active I-9 files.

All HR Consultants and HR Assistant were required to review Department of Accounts Powerpoint "Completion of the Form I-9." This review was completed as of September 30, 2008.

It should be noted that although some forms were not strictly completed per instructions all supporting documents used to verify identity and employment eligibility were attached to each I-9 that was provided to the APA.

Responsible Executive: Jeannie Thorpe, Human Resources Director

Completion Date: September 30, 2008



COMMONWEALTH of VIRGINIA

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

David S. Ekern, P.E.
COMMISSIONER

January 20, 2009

Mr. Walker J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Mr. Kucharski,

I appreciate the opportunity to comment on the Commonwealth Transportation Fund report for Fiscal Year 2008. The Department has strived to maintain its good record of effective financial operations and controls, and I am very pleased that the report contains no significant findings and no financial internal control findings.

With respect to the comment to establish procedures for monitoring logs of database and system administrators' access and activity for applications on the Equipment Management System, as you acknowledge in the report, VDOT began implementing the necessary action once the issue was brought to our attention.

The Department's Information Technology Division has reviewed the available logs and is implementing procedures to monitor the database and system administrators' access and activity on the Equipment Management System (EMS) as recommended. These procedures will continue until the EMS system is replaced later this year with a new application that will not store sensitive data.

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

Sincerely,

A handwritten signature in black ink, reading "David S. Ekern".

David S. Ekern, P.E.
Commissioner

c: The Honorable Pierce R. Homer
Chief Deputy Commissioner
Executive Staff



COMMONWEALTH of VIRGINIA

CHARLES BADGER
Acting Director

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION
1313 EAST MAIN STREET, SUITE 300
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January 14, 2009

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

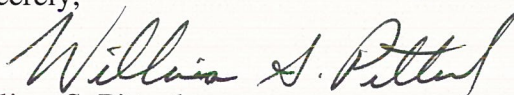
Dear Mr. Kucharski:

Thank you for this opportunity to respond to the comment on Non-Formula Public Transportation Grant Management. The Department of Rail and Public Transportation would like to respond to this comment as follows:

The Chief of Public Transportation is developing consistent criteria and procedures to rank grant awards for use by members of the executive award committee. In addition, complete documentation of the basis of grant awards will be created and retained to evidence the use of an equitable and consistent grant award process. A grantee handbook has been published and this information has been disseminated to grantees. Within six months, project managers will have a manual that documents agency policies and procedures for managing and approving grant payments

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

Sincerely,


William S. Pittard
Chief Financial Officer

The Smartest Distance Between Two Points
www.drpt.virginia.gov

OFFICIALS

Pierce R. Homer, Secretary of Transportation

Barbara Reese, Deputy Secretary

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

Matthew O. Tucker, 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

Mary Lee Carter

Julia A. Connally

John J. "Butch" Davies III

James A. Davis

E. Dana Dickens, III

James L. Keen

J. Douglas Koelemay

Dana M. Martin

Gerald P. McCarthy

Peter B. Schwartz

Cord A. Sterling

Mathew O. Tucker

Kenneth Spencer White

Alan S. Witt

AGENCIES OF THE SECRETARY OF TRANSPORTATION
SUMMARY OF FINANCIAL INFORMATION
SOURCES AND USES
For Fiscal Years 2008 and 2007

	Department of Aviation		Department of Motor Vehicles	
Sources:	2008	2007	2008	2007
Revenue (net of refunds):				
Taxes	\$ 29,067,501	\$ 31,368,922	\$ 1,143,351,565	\$ 1,177,673,228
Fees, licenses and permits	596,005	594,581	461,549,160	382,641,377
Tolls	-	-	-	-
Service, property and recycling sales	716,915	657,791	184,176	177,561
Receipts from cities, counties and towns	-	-	-	-
Private donations and contract revenue	-	-	-	-
Fines and assessments	2,155	1,608	31,658,721	30,100,789
Interest, dividends and rents	1,002,053	1,121,177	234,145	285,704
Federal grants and contracts	394,397	172,995	33,341,750	14,260,924
Other miscellaneous revenues	1,073,650	63,513	845,528	871,694
Revenue bond proceeds	-	-	-	-
General fund appropriations	44,067	44,067	-	-
Reduction in fund balance	3,343,165	227,810	5,649,678	-
Total sources	<u>36,239,908</u>	<u>34,252,464</u>	<u>1,676,814,723</u>	<u>1,606,011,277</u>
Net transfers in/(out)	<u>(70,235)</u>	<u>(57,782)</u>	<u>(1,431,598,598)</u>	<u>(1,363,215,692)</u>
Total funds available for use	36,169,673	34,194,682	245,216,125	242,795,585
Uses:				
Expenses (net of refunds):				
Administrative & support services	1,020,268	924,591	70,425,494	64,891,710
Air transportation programs	35,149,406	33,270,091	-	-
Capital outlay projects	-	-	499,536	795,385
Environmental monitoring & evaluation	-	-	-	-
Financial assistance to localities	-	-	38,576,977	36,756,697
Ground transportation regulation	-	-	122,216,631	115,348,000
Ground transportation system planning	-	-	-	-
Ground transportation system safety	-	-	13,497,487	10,939,406
Highway system acquisition & construction	-	-	-	-
Acquisition and construction through bond proceeds	-	-	-	-
Highway system 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 uses	<u>36,169,674</u>	<u>34,194,682</u>	<u>245,216,125</u>	<u>228,731,198</u>
Excess/(deficit) sources over uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,064,387</u>

Source: Commonwealth Accounting and Reporting System

APPENDIX A

Department of Rail and Public Transportation		Department of Transportation		Motor Vehicle Dealer Board		Board of Towing and Recovery Operations	
2008	2007	2008	2007	2008	2007	2008	2007
\$ 146,616,726	\$ 147,511,088	\$ 683,378,184	\$ 690,479,960	\$ 236,512	\$ 234,246	\$ -	\$ -
3,135,557	3,105,694	36,056,064	33,567,430	2,079,392	1,697,494	192	36
-	-	94,662,041	81,905,482	-	-	-	-
-	-	8,472,983	12,214,490	-	-	-	-
-	507,493	97,478,281	65,858,515	-	-	-	-
-	-	21,141,893	-	-	-	-	-
13,201	9,850	593,535	361,487	-	-	-	-
8,926,795	7,744,432	81,430,349	79,478,041	61,014	64,088	-	-
32,268,897	36,288,024	851,359,748	612,929,772	-	-	-	-
7,006,424	-	14,687,215	25,584,602	-	-	-	-
-	-	-	131,560,053	-	-	-	-
-	-	359,007,586	642,700,000	-	-	-	-
51,085,199	-	-	-	-	-	218,032	350,000
<u>249,052,798</u>	<u>195,166,581</u>	<u>2,248,267,878</u>	<u>2,376,639,832</u>	<u>2,376,919</u>	<u>1,995,828</u>	<u>218,224</u>	<u>350,036</u>
<u>121,596,506</u>	<u>80,216,266</u>	<u>1,227,773,047</u>	<u>1,250,852,060</u>	<u>(14,351)</u>	<u>(56,702)</u>	<u>-</u>	<u>-</u>
370,649,304	275,382,847	3,476,040,926	3,627,491,892	2,362,568	1,939,126	218,224	350,036
4,608,531	4,117,536	215,721,892	201,425,038	-	-	-	-
-	-	-	-	-	-	-	-
-	-	12,800,268	7,965,732	-	-	-	-
-	-	14,857,549	14,302,784	-	-	-	-
-	-	348,948,589	342,000,259	-	-	-	-
-	-	-	-	-	-	-	-
2,645,280	2,603,667	32,475,208	33,411,471	-	-	-	-
-	-	-	-	-	-	-	-
-	-	1,341,596,902	1,061,234,948	-	-	-	-
-	11,869,636	-	(4,729)	-	-	-	-
-	-	1,198,141,832	970,842,973	-	-	-	-
195,469,136	156,095,966	-	-	-	-	-	-
-	-	258,043,125	257,885,963	-	-	-	-
131,637,538	21,176,469	-	-	-	-	-	-
36,288,819	12,113,419	-	-	-	-	-	-
-	-	-	-	1,874,803	1,866,772	218,224	102,491
-	-	43,209,642	48,609,853	-	-	-	-
<u>370,649,304</u>	<u>207,976,693</u>	<u>3,465,795,007</u>	<u>2,937,674,292</u>	<u>1,874,803</u>	<u>1,866,772</u>	<u>218,224</u>	<u>102,491</u>
<u>\$ -</u>	<u>\$ 67,406,154</u>	<u>\$ 10,245,919</u>	<u>\$ 689,817,600</u>	<u>\$ 487,765</u>	<u>\$ 72,354</u>	<u>\$ -</u>	<u>\$ 247,545</u>

AGENCIES OF THE SECRETARY OF TRANSPORTATION
SUMMARY OF FINANCIAL INFORMATION
SOURCES AND USES
For Fiscal Years 2008 and 2007

APPENDIX A

Sources:	Secretary of Transportation		Total Commonwealth Transportation	
	2008	2007	2008	2007
Revenue (net of refunds):				
Taxes	\$ -	\$ -	\$ 2,002,650,488	\$ 2,047,267,444
Fees, licenses and permits	-	-	503,416,369	421,606,612
Tolls	-	-	94,662,041	81,905,482
Service, property and recycling sales	-	-	9,374,074	13,049,842
Receipts from cities, counties and towns	-	-	97,478,281	66,366,008
Private donations and contract revenue	-	-	21,141,893	-
Fines and assessments	-	-	32,267,612	30,473,734
Interest, dividends and rents	-	-	91,654,357	88,693,442
Federal grants and contracts	-	-	917,364,792	663,651,715
Other miscellaneous revenues	8,802	-	23,621,619	26,519,809
Revenue bond proceeds	-	-	-	131,560,053
General fund appropriations	-	-	359,051,653	642,744,067
Reduction in fund balance	-	-	60,296,074	577,810
Total sources	<u>8,802</u>	<u>-</u>	<u>4,212,979,252</u>	<u>4,214,416,018</u>
Net transfers in/(out)	<u>769,863</u>	<u>685,476</u>	<u>(81,543,768)</u>	<u>(31,576,374)</u>
Total funds available for use	778,664	685,476	4,131,435,484	4,182,839,644
Uses:				
Expenses (net of refunds):				
Administrative & support services	769,863	685,476	292,546,047	272,044,351
Air transportation planning, regulation & maintenance	-	-	35,149,406	4,430,989
Capital outlay projects	-	-	13,299,804	8,761,117
Environmental monitoring & evaluation	-	-	14,857,549	14,302,784
Financial assistance to localities	-	-	387,525,566	378,756,956
Ground transportation regulation	-	-	122,216,631	115,348,000
Ground transportation system planning	-	-	35,120,488	36,015,138
Ground transportation system safety	-	-	13,497,487	10,939,406
Highway system acquisition & construction	-	-	1,341,596,902	1,061,234,948
Acquisition and construction through bond proceeds	-	-	-	11,864,907
Highway system maintenance	-	-	1,198,141,832	970,842,973
Mass transit assistance	-	-	195,469,136	156,095,966
Debt service, principal and interest	-	-	258,043,125	257,885,963
Public transportation acquisition and construction	-	-	131,637,538	21,176,469
Rail assistance	-	-	36,288,819	12,113,419
Regulation of professions and occupations	-	-	2,093,027	1,969,263
Toll facility operations	-	-	43,209,642	48,609,853
Total uses	<u>769,863</u>	<u>685,476</u>	<u>4,120,692,999</u>	<u>3,411,231,604</u>
Excess/(deficit) sources over uses	<u>\$ 8,802</u>	<u>\$ -</u>	<u>\$ 10,742,485</u>	<u>\$ 771,608,040</u>

Source: Commonwealth Accounting and Reporting System

TOLL AND BOND FUND
SCHEDULE OF SOURCES AND USES
For Fiscal Years 2008 and 2007 (In thousands)

	Route 58 Project		Northern VA Transportation District	
	2008	2007	2008	2007
Sources:				
Toll revenue	\$ -	\$ -	\$ -	\$ -
Highway permit fees, fines and penalties	-	-	8,862	4,165
Interest revenue	2,889	2,517	6,972	6,511
Receipts from cities, counties, & towns	-	-	816	816
Other miscellaneous revenue	-	5	50	16
Proceeds from sale of bonds	-	90,898	-	40,662
Receipts from trustees	150	95,787	1,491	49,090
Borrowed from other funds	-	-	-	-
Net transfers in/(out)	<u>50,000</u>	<u>65,273</u>	<u>26,263</u>	<u>27,987</u>
Total funds available for use	<u>53,039</u>	<u>254,480</u>	<u>44,454</u>	<u>129,247</u>
Uses:				
Highway Construction	8,633	6,213	5,742	4,380
Debt service payments	50,748	50,330	27,982	27,950
Toll facility operations	-	-	-	-
Capital outlay projects	-	-	-	-
Advanced refunding payment to escrow	-	90,762	-	40,594
Payments to trustees	<u>111</u>	<u>91,476</u>	<u>777</u>	<u>42,080</u>
Total uses	<u>59,492</u>	<u>238,781</u>	<u>34,501</u>	<u>115,004</u>
Surplus/(deficit) of sources over uses ^(Note A)	<u>\$ (6,453)</u>	<u>\$ 15,699</u>	<u>\$ 9,953</u>	<u>\$ 14,243</u>

Source: Commonwealth Accounting and Reporting System

Note A - This reflects only activity for the noted fiscal year, any deficit reflected was absorbed by beginning fund balance and was appropriated through adjustments by Department of Planning and Budget. It is important to note that the Powhite Parkway Fund carries a negative fund balance of \$43.9M and receives cash flow assistance from other funds.

APPENDIX B

Transportation Set-a-side		Route 28 Improvements		Coleman Bridge Toll		Federal Reimbursement Anticipation Notes	
2008	2007	2008	2007	2008	2007	2008	2007
\$ -	\$ -	\$ -	\$ -	\$ 6,771	\$ 6,723	\$ -	\$ -
-	-	-	-	-	-	-	-
100	99	277	136	274	261	4,137	9,650
1,000	1,000	49,596	20,534	-	-	-	-
-	-	-	-	-	6	-	-
-	-	-	-	-	-	-	-
1	68	7,561	7,533	-	-	211,668	291,092
-	-	-	-	40,321	40,321	-	-
1,078	1,116	-	-	(10)	(8)	145,703	125,753
2,179	2,283	57,434	28,203	47,356	47,303	361,508	426,495
3	58	42,116	13,010	-	-	57,395	118,406
2,237	2,236	7,525	7,530	3,175	-	149,617	149,612
-	-	-	-	2,616	5,464	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1	10	7,526	7,532	-	-	154,417	158,461
2,241	2,304	57,167	28,072	5,791	5,464	361,429	426,479
\$ (62)	\$ (21)	\$ 267	\$ 131	\$ 41,565	\$ 41,839	\$ 79	\$ 16

TOLL AND BOND FUND
SCHEDULE OF SOURCES AND USES
For Fiscal Years 2008 and 2007 (In thousands)

APPENDIX B

	Dulles Toll Road		Powhite Parkway Toll	
	2008	2007	2008	2007
Sources:				
Toll revenue	\$ 65,977	\$ 64,931	\$ 10,406	\$ 10,252
Highway permit fees, fines and penalties	-	-	-	-
Interest revenue	3,240	5,341	189	261
Receipts from cities, counties, & towns	-	-	-	-
Other miscellaneous revenue	38	2,269	-	-
Proceeds from sale of bonds	-	-	-	-
Receipts from trustees	-	-	-	-
Borrowed from other funds	2,000	2,000	46,920	46,920
Net transfers in/(out)	<u>(63,910)</u>	<u>(38,138)</u>	<u>(643)</u>	<u>(622)</u>
Total funds available for use	<u>7,345</u>	<u>36,403</u>	<u>56,872</u>	<u>56,811</u>
Uses:				
Highway Construction	-	1,672	-	-
Debt service payments	10,526	-	6,244	-
Toll facility operations	16,331	37,929	4,294	10,417
Capital outlay projects	214	-	-	-
Advanced refunding payment to escrow	-	-	-	-
Payments to trustees	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total uses	<u>27,071</u>	<u>39,601</u>	<u>10,538</u>	<u>10,417</u>
Surplus/(deficit) of sources over uses ^(Note A)	<u>\$ (19,726)</u>	<u>\$ (3,198)</u>	<u>\$ 46,334</u>	<u>\$ 46,394</u>

Source: Commonwealth Accounting and Reporting System

Note A - This reflects only activity for the noted fiscal year, any deficit reflected was absorbed by beginning fund balance and was appropriated through adjustments by Department of Planning and Budget. It is important to note that the Powhite Parkway Fund carries a negative fund balance of \$43.9M and receives cash flow assistance from other funds.

APPENDIX C

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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