



AGENCIES OF THE SECRETARY OF TRANSPORTATION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2020

Auditor of Public Accounts
Staci A. Henshaw, CPA

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AUDIT SUMMARY

This report communicates our fiscal year 2020 audit results for the Virginia Department of Transportation (Transportation) and the Department of Motor Vehicles (Motor Vehicles). Collectively, these two agencies spent \$6 billion or 85 percent of the total expenses for the agencies under the Secretary of Transportation and collected 99 percent of revenues collected by Secretary of Transportation agencies.

Our audits of these agencies support our Office's work on the Commonwealth's Comprehensive Annual Financial Report (CAFR). Overall, we found the following:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system, each agency's accounting records, and in other financial information submitted to the Department of Accounts (Accounts);
- a matter at Transportation that we consider to be a material weakness in internal control and its operations;
- additional matters at both Transportation and Motor Vehicles involving internal control and its operations necessary to bring to management's attention;
- an instance of noncompliance at Motor Vehicles with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to prior audit findings identified as resolved in the [Findings Summary](#) included in the Appendix.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS	
Department of Transportation	1-6
Department of Motor Vehicles	6-7
STATUS OF PRIOR YEAR FINDING AND RECOMMENDATION	
Department of Motor Vehicles	7-8
INDEPENDENT AUDITOR'S REPORT	9-12
AGENCY RESPONSES	
Department of Transportation	13-14
Department of Motor Vehicles	15
SECRETARY OF TRANSPORTATION AGENCY OFFICIALS	16
APPENDIX – FINDINGS SUMMARY	17

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

This section is organized by agency and the header for each finding includes information about its type and severity and whether it is a repeat finding. The severity classifications are discussed in more detail in the section titled “Independent Auditor’s Report.” In addition to this section, we have included another section titled “Status of Prior Year Finding and Recommendation” to provide the status of corrective action for an issue that was not resolved from our previous audit of Motor Vehicles.

DEPARTMENT OF TRANSPORTATION

Why the APA Audits Financial Reporting

Transportation submitted over 65 financial statement attachments and disclosures to Accounts to support the development of the Commonwealth’s CAFR at year-end, many of which report over a billion dollars in financial activity. We reviewed Transportation’s financial reporting procedures and submissions to Accounts to ensure both adhered to the applicable standards and disclosed the substance of the underlying activity. Subsequently, our testwork resulted in the following recommendations.

Improve Financial Reporting of Infrastructure Assets

Type: Internal Control

Severity: Material Weakness

Repeat: Yes (first issued in fiscal year 2019)

As noted in prior years, the Fiscal Division’s (Fiscal) process for reporting construction in progress (CIP) and infrastructure related to roadway assets is complex and manual, which makes it extremely difficult for Fiscal to implement controls and procedures that can adequately reduce the risk of errors. In fiscal year 2020, Fiscal understated net capital assets related to CIP and infrastructure by \$141.8 million. Mistakes in internal schedules and new staff not understanding the intricacies of the process or the implications of certain actions resulted in the following errors:

- Fiscal excluded project expenses related to right-of-way land from work in process, resulting in a \$119.5 million understatement of CIP.
- Fiscal did not update the reporting categories used to classify construction and maintenance projects as capitalizable or non-capitalizable for all projects reviewed during the fiscal year. Out of 298 maintenance projects reviewed, Fiscal did not update the capitalization classification for 104 projects (35%) in the Commonwealth’s accounting and financial reporting system, overstating infrastructure by \$15.5 million, net.

- As a result of not reviewing or categorizing projects in prior years, net capital assets were understated by \$29.3 million. Fiscal also overstated net capital assets by \$3.0 million as a result of other projects having the incorrect reporting category, for a net understatement of \$26.3 million.
- Fiscal decreased the value of a previously capitalized service concession arrangement (SCA) asset due to a funding reclassification. However, the funding reclassification did not result in a change to the assets that were constructed. This understated CIP by \$10.8 million and infrastructure by \$10.4 million, net.
- In cases where Fiscal changed a project's reporting category due to subsequent review, Fiscal did not always adjust prior CIP and infrastructure asset amounts for prior year expenses, overstating CIP by \$1.3 million and infrastructure by \$4.5 million, net.
- Fiscal did not properly update the internal schedules used to calculate annexations, overstating infrastructure by \$4.3 million, net.
- Fiscal double counted a project's expenses while removing non-capitalizable projects from work in process, understating CIP by \$495,739.

In addition to the misstatements noted above, Fiscal's disclosures on the capital asset submission submitted to Accounts were incomplete or misstated in the following ways:

- Fiscal did not report the carrying value for one previously capitalized SCA of \$537.4 million.
- Fiscal did not include prior year improvements in the calculation of the carrying value of another previously capitalized SCA, understating the carrying value by \$2.6 million.
- Fiscal did not report the right of way asset for a newly capitalized SCA, excluding an additional \$316,000 asset from the disclosure.

The State Comptroller's annual Directive requires Transportation to report capital assets including infrastructure for inclusion in the Commonwealth's Comprehensive Annual Financial Report and requires all submissions to contain complete and accurate information. Additionally, the Commonwealth Accounting Policies and Procedures Manual (CAPP Manual) Topic 30210 requires agencies to implement internal control procedures to ensure that all assets are recorded at their proper value. We consider the combination of issues noted to be a material weakness as the current process does not prevent, or detect and correct on a timely basis, material misstatements to the financial statements.

When the Commonwealth implemented Governmental Accounting Standards Board (GASB) Statement No. 34 in 2002, Transportation decided that the most efficient way to capitalize roadway infrastructure was to use programmatic funding because construction and maintenance programs were separate. This created a simple process for identifying infrastructure expenses for capitalization. Over the years, Transportation's programmatic funding gradually changed, leading to a blurred line between maintenance and capitalizable construction projects. Starting in fiscal year 2017, the General Assembly significantly changed Transportation's programmatic funding streams and their purposes, resulting in further complexities, as programs could have capitalizable maintenance projects, capitalizable construction projects, and non-capitalizable projects in the same program. To adapt to the new programmatic coding, Fiscal began using manually assigned reporting categories to label each project for inclusion or exclusion from infrastructure. The process over reporting infrastructure assets has become so complex that making a mistake on one of Fiscal's internal schedules or in one data field for one project in the Commonwealth's accounting and financial reporting system could potentially result in a material error. Because the process is complex and manual and projects range in value, Fiscal cannot implement processes and controls that can adequately reduce the risk of errors and omissions.

In addition, Fiscal experienced turnover in multiple positions during fiscal year 2020 that are involved in the infrastructure valuation process. Due to the complexity of the process, the new staff did not have a thorough understanding of the process and of the implications of the decisions they made. Fiscal did not update project reporting categories if the project had \$0 in expenses for the fiscal year at the time of review because they did not think it would have a financial reporting impact. However, the reporting category applies to the expenses for the life of a project. Fiscal does not review all projects with expenses every year, so Fiscal must assign the reporting category to ensure that any expenses later in the reporting period or in future fiscal years are properly classified. Additionally, Fiscal does not have a procedure to identify any accounting adjustments necessary to prior year amounts when a reporting category changes between years. Furthermore, the roll up of internal schedules to report CIP and infrastructure amounts is a manual process that involves numerous schedules that all have to be properly updated. Fiscal does not use control totals or any other analysis to ensure accuracy and completeness of the capitalizable amounts reported.

Fiscal should design, implement, and ensure the operational effectiveness of internal controls over the financial reporting of infrastructure assets so that the amounts reported to Accounts on the capital asset submission are accurate and reasonable. Fiscal should ensure that all individuals responsible for preparing and reporting infrastructure amounts, specifically new staff, have a thorough understanding of the process and of the implications of their decisions. Fiscal should seek ways to automate the financial reporting of infrastructure assets to eliminate reliance on manual processes and reduce errors. Additionally, Fiscal should provide for adequate review of all data and information used to compile the capital asset submission, including review of prior reporting categories to ensure capitalization is appropriate year to year. Fiscal should use control totals or other analysis to ensure that all amounts have been properly reported. In lieu of improving the current process, Fiscal should consider re-evaluating its financial reporting methodology for infrastructure assets by considering best practices and methods that other state governments use to capitalize highway infrastructure to determine if there is a more efficient and accurate process that they could implement.

Improve Financial Reporting of Capital Assets Other than Roadway Infrastructure

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Fiscal did not properly report beginning balances, current year activity, and ending balances for capital assets including CIP, land, buildings, and improvements. Fiscal overstated net capital assets by \$2.2 million, as outlined below:

- Fiscal did not properly evaluate whether Transportation acquired assets in the current year or the prior year, understating the beginning balance by \$2.9 million, net. Of this, Fiscal reported \$3.0 million as current year increases and did not report the associated \$170,618 of prior year depreciation.
- Fiscal properly identified projects on the CIP schedule that should not have been included on the schedule this fiscal year but did not exclude the amounts from current year activity, requiring a \$6.3 million adjustment to increases and decreases for CIP.
- Fiscal included projects in CIP that Fiscal removed from CIP and capitalized in prior years, requiring a \$4.2 million adjustment to the CIP beginning balance and decreases to CIP.
- Fiscal reported a budgeted project amount instead of actual current year expenses for one software project in CIP, overstating CIP increases and the ending balance by \$2 million.
- Fiscal reported assets that asset managers removed and re-added to the Commonwealth's capital asset system to correct errors in those assets as current year disposals and additions, overstating land increases and decreases by \$660,535 each and building increases and decreases by \$4.3 million each.

Fiscal's errors can cause significant misstatements of capital asset balances in the Commonwealth's CAFR. The State Comptroller's annual Directive requires Transportation to report capital assets for inclusion in the CAFR and requires all submissions to contain complete and accurate information. Additionally, GASB 34 requires that Fiscal show information about capital assets as beginning and end of year balances, capital acquisitions, and sales or other dispositions of assets.

Fiscal does not have an adequate understanding of what Accounts requires Transportation to report for the CAFR. Fiscal did not understand the implications or ensure the reasonableness of what they reported to Accounts. For CIP and the assets that asset managers removed and re-added to the Commonwealth's capital asset system, Fiscal believed that there was no impact if the ending balance was correct. Fiscal also relied on non-accounting personnel to provide them with information and

reports for financial reporting. Without proper review and analysis of the data provided, Fiscal has no assurance over the accuracy of the information.

Fiscal should design, implement, and ensure the operational effectiveness of internal controls over the financial reporting of capital assets so that the preparation of the capital asset submission to Accounts is accurate and reasonable. Fiscal should ensure that all individuals responsible for preparing and reporting capital asset information for the CAFR have a thorough understanding of financial reporting and the implications of the amounts they are reporting. Finally, Fiscal should develop procedures to review and analyze information obtained from other departments and ensure it is reported properly.

Why the APA Audits Payroll and Human Resources

Transportation's payroll expenses exceeded \$702 million during the fiscal year. Transportation employs approximately 7,900 salaried and wage employees across the Commonwealth. To determine whether Transportation's payroll and human resources controls were adequate, we compared agency practices against their own policies as well as requirements set by Accounts and the Department of Human Resource Management. Our testwork resulted in the following recommendation.

Follow-Up with Supervisors to Ensure the Separating Employee Checklist is Properly Completed

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Supervisors at Transportation are not consistently completing the Separating Employee Checklist (separation checklist) timely or in its entirety. Thirty percent of the thirty terminated employees sampled had exceptions with their separation checklists, including:

- One instance where a supervisor did not submit a separation checklist to the Human Resources Division (Human Resources);
- Four instances where a supervisor did not complete all the sections of the separation checklist, including noting whether a task was either completed or not applicable and/or signing and dating the separation checklist; and
- Four instances where a supervisor completed the separation checklist more than three days after the employee's last date of employment; in two of the four instances, the supervisor completed the separation checklist over 100 days after the employee's last date of employment.

Transportation's Human Resources' Guidance for completing the separation checklist states that supervisors must complete a separation checklist by the employee's last day worked, or within three days of being notified the employee will not be returning to work. Human Resources relies on the completion of the separation checklist to ensure other parts of the separation process are properly completed prior to the employee's last day with the agency. Potential consequences of not properly completing the separation checklist include an increased risk of misappropriation of Commonwealth assets or security concerns with non-employees having the ability to access Transportation's information systems and facilities.

While we found that Transportation properly stopped paying all the terminated employees in our sample, Human Resources did not follow up with each terminated employee's supervisor to ensure the separation checklist was properly completed. Human Resources should take steps to ensure Supervisors are aware of their responsibility to facilitate timely and complete submission of separation checklists, and to escalate issues of non-compliance with the appropriate management to ensure Transportation has a properly completed separation checklist for each terminated employee.

DEPARTMENT OF MOTOR VEHICLES

Why the APA Audits Journal Entries

Motor Vehicles prepared routine journal entries totaling approximately \$3.7 billion during fiscal year 2020. These entries mostly represent the reallocation and transfer of revenues to other agencies and entities in accordance with the Code of Virginia and the Appropriation Act. To determine whether Motor Vehicles' controls over the completion of these journal entries were adequate, we requested a copy of the agency's policies and procedures and ensured entries were consistent with legislative requirements. Our testwork resulted in the following recommendation.

Develop a Schedule of Routine Accounting Adjustments

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Motor Vehicles' Finance Division (Finance) has not developed a schedule of routine accounting adjustments, known as general ledger journal entries. Finance uses general ledger journal entries to distribute, adjust, and correct transactions in the Commonwealth's accounting and financial reporting system. Finance performs many of these general ledger journal entries to comply with the Code of Virginia. Some of Finance's notable routine general ledger journal entries include:

- Transferring monies to other state agencies to construct and maintain the Commonwealth's transportation system. These transfers are approximately \$2.4 billion annually.
- Allocating motor fuels tax collections to various funds and accounts in the Commonwealth's accounting and financial reporting system to allow for subsequent transfer to other state agencies. These allocations are approximately \$900 million annually.
- Allocating motor vehicle sales and use taxes from the Highway Maintenance and Operating Fund to the Transportation Trust Fund. These transfers are approximately \$200 million annually.

Topic 20410 of the Commonwealth's CAPP Manual states that agencies should establish a routine schedule for accumulating and processing general ledger journals each month. Finance experienced turnover during the period under review and Finance management has not created a schedule for processing general ledger journals. Given the frequency of legislative changes and the volume and amount of general ledger journal entries performed by Motor Vehicles, not documenting and retaining a schedule elevates the risk of a misstatement and/or non-compliance, especially when there is turnover within the agency.

Finance management should develop, document, and retain a schedule of routine general ledger journal entries. Upon completion, management should consider having Motor Vehicles' Agency Risk Management and Internal Control Standard function review the schedule periodically to ensure it is updated when there is a change in legislation and/or to Motor Vehicle's control environment.

STATUS OF PRIOR YEAR FINDING AND RECOMMENDATION

This section provides the status of findings from prior years which have not been resolved, but significant progress has been made by the agency's management in addressing the recommendation. The status finding reported includes information on the type of finding, the severity classification for the finding, and an update on progress made since the issuance of the prior year's audit report. The severity classifications are discussed in more detail in the section titled "Independent Auditor's Report."

DEPARTMENT OF MOTOR VEHICLES

Continue Improving Controls for Processing Access Terminations and Changes

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Partial (first issued in fiscal year 2018 with significant progress)

Motor Vehicles continues to not manage access to its information systems timely. Motor Vehicles made significant process improvements to improve account management. Specifically, Motor Vehicles began using a new identity and access management tool. Additionally, Motor Vehicle's Information Security Risk Management group began working with the Account Security Office and

Human Resources to gain greater visibility into account activity. However, Motor Vehicles has not yet completed corrective actions to manage access terminations and changes. We communicated the weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under § 2.2-3705.2 of the Code of Virginia due to the descriptions of security mechanisms contained within the documents.

The Commonwealth's Information Security Standard, SEC 501 (Security Standard), requires agencies to implement certain controls that reduce unnecessary risk to data confidentiality, integrity, and availability. By not meeting the minimum requirements in the Security Standard, Motor Vehicles cannot ensure the confidentiality, integrity, and availability of data within its systems.

Motor Vehicles should remediate the weaknesses discussed in the communication marked FOIAE in a timely manner and ensure they meet Security Standard requirements.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 13, 2021

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Agencies of the Secretary of Transportation**, as defined in the Audit Scope and Methodology section below, for the year ended June 30, 2020. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Annual Financial Report audit. 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, 2020. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, in the Agencies of the Secretary of Transportation's accounting records, and in supplemental information and attachments submitted to the Department of Accounts (Accounts); reviewed the adequacy of the Agencies of the Secretary of Transportation's internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions with respect to audit findings from prior year reports.

Audit Scope and Methodology

Management of the Agencies of the Secretary of Transportation have responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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, regulations, contracts, and grant agreements.

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

Department of Transportation (Transportation)

- Accounts receivable and revenues
- Accounts payable and expenses
- Capital asset management
- Cash and debt management
- Commonwealth's retirement benefit system
- Contract procurement and management
- Financial reporting
- Human resources
- Information security and general system controls
- Inventory
- Payroll and other expenses

Department of Motor Vehicles, including Department of Motor Vehicles Transfer Payments (Motor Vehicles)

- Accounts receivable and revenues
- Accounts payable and expenses
- Commonwealth's retirement benefit system
- Financial reporting
- Information security and general system controls

The following agencies under the control of the Secretary of Transportation are not material to the Comprehensive Annual Financial Report for the Commonwealth of Virginia or are audited by other auditors. As a result, these agencies are not included in the scope of this audit:

- Department of Aviation
- Department of Rail and Public Transportation
- Motor Vehicle Dealer Board
- Virginia Port Authority
- Virginia Commercial Space Flight Authority

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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of agencies' operations. We performed analytical procedures, including budgetary and trend analyses. We confirmed cash and investments with outside parties. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and, when appropriate, we projected our results to the population.

Our consideration of internal control over financial reporting was for the limited purpose described in the section “Audit Objectives” and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the section titled “Internal Control Findings and Recommendations,” we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency titled “Improve Financial Reporting of Infrastructure Assets,” which is described in the section titled “Internal Control Findings and Recommendations,” to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the remaining deficiencies, which are described in the sections titled “Internal Control Findings and Recommendations” and “Status of Prior Year Finding and Recommendation,” to be significant deficiencies.

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’s accounting and reporting system, each agency’s accounting records, and in the supplemental information and attachments submitted to Accounts.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that require management’s attention and corrective action. These matters are described in the sections titled “Internal Control Findings and Recommendations” and “Status of Prior Year Finding and Recommendation.”

Motor Vehicles has not completed taking adequate corrective action with respect to the previously reported finding titled “Continue Improving Controls for Processing Access Termination and Changes.” Accordingly, we included this finding in the section titled “Status of Prior Year Finding and Recommendation.” Further, Transportation has not completed taking adequate corrective action with

respect to the previously reported finding titled “Improve Financial Reporting of Infrastructure Assets.” We included this finding in the section titled “Internal Control Findings and Recommendations.” Motor Vehicles and Transportation have taken adequate corrective action with respect to audit findings identified as resolved in the [Findings Summary](#) included in the Appendix.

Since the findings noted above include those that have been identified as a material weakness or a significant deficiency, they will be reported as such in the “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards,” which is included in the Commonwealth of Virginia’s Single Audit Report for the year ended June 30, 2020. The Single Audit Report will be available at www.apa.virginia.gov in February 2021.

Exit Conference and Report Distribution

We provided management of Transportation and Motor Vehicles a draft of this report on January 22, 2021, for review and development of their response. Management’s response to the findings identified in our audit is included in the section titled “Agency Responses.” We did not audit management’s response and, accordingly, we express no opinion on it.

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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

GDS/clj



COMMONWEALTH of VIRGINIA

DEPARTMENT OF TRANSPORTATION

Stephen C. Brich, P.E.
Commissioner

1401 East Broad Street
Richmond, Virginia 23219

(804) 786-2701
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January 28, 2021

Ms. Staci Henshaw
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23219

Dear Ms. Henshaw:

The Department of Transportation appreciates the opportunity to respond to the Secretary of Transportation's audit report for Fiscal Year 2020. Your review has identified opportunities for the Department to enhance its current practices to strengthen our financial reporting and internal controls, for which we give our highest level of attention and consideration. The Department concurs with your recommendations and we are focused on proactively strengthening the Department's internal controls, enhancing procedures, and improving financial reporting. Below are the Department's responses which should address the areas of concern:

Improve Financial Reporting of Infrastructure Assets

The Department appreciates the APA's review of infrastructure capitalization and its acknowledgement that identification and classification of infrastructure has become much more complex in the last few years due to changes in the programmatic funding process. We will review and strengthen our infrastructure capitalization procedures as needed, create a checklist to ensure accurate financial reporting, ensure new staff have a thorough comprehension of capital assets reporting, and explore feasibility of classifying capitalization at project creation. We will continue to review the current methodology for reporting infrastructure and make improvements where feasible to improve accuracy.

Improve Financial Reporting of Capital Assets Other than Roadway Infrastructure

The Department acknowledges improvements are needed in reporting of capital assets. As a result, internal procedures will be updated, training will be provided to other divisions that assist with the compilation and checklists will be developed to ensure a proper review.

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Follow-Up with Supervisors to Ensure the Separating Employee Checklist is Properly Completed

The Department acknowledges improvements are needed in the dissemination and collection of separating employee checklists. Human Resources should take all possible steps to ensure Supervisors are aware of their responsibility to facilitate timely and complete submission of separation checklists, and to escalate issues of non-compliance with the appropriate management to ensure the Department of Transportation has a properly completed separation checklist for each terminated employee.

On January 6, a new Standard Operating Procedure (SOP) was issued to field HR staff to create more structure for dissemination, follow up, and collection of the checklists, inclusive of escalation reporting for any areas of noncompliance in a timely fashion so that gaps can be addressed quickly. In addition, a communication slide was created for our Employee Bulletin Boards (EBB) which will run in February and August, annually, as a reminder of the separation notification responsibilities for supervisors.

Lastly, the HR Division will work to incorporate additional content in our People Manager Fundamentals (Supervisory Training Program) to enhance understanding of this supervisory responsibility and will seek opportunities with future automated systems technology and workflow to make completion more consistent and seamless.

Sincerely,



Stephen C. Brich, P.E.
Commissioner

c: The Honorable Shannon R. Valentine
Chief Deputy Commissioner
Executive Staff



COMMONWEALTH of VIRGINIA

Department of Motor Vehicles
2300 West Broad Street

Richard D. Holcomb
Commissioner

Post Office Box 27412
Richmond, VA 23269-0001

January 27, 2021

Ms. Staci A. Henshaw
Auditor of Public Accounts
Post Office Box 125
Richmond, VA 23219

Dear Ms. Henshaw:

Thank you for this opportunity to respond to your latest audit of the Agencies of the Secretary of Transportation for the fiscal year ended June 30, 2020. We are pleased that you found our financial reporting to be properly stated. We also sincerely appreciate the professionalism and guidance of your staff. The Department of Motor Vehicles' responses to the findings are below.

Develop a Schedule of Routine Accounting Adjustments

The Department of Motor Vehicles understands the need to establish a routine schedule for accumulating and processing general ledger journals each month. DMV has a plan in place to develop, document, and retain schedules for the adjustments.

Continue Improving Controls for Processing Access Terminations and Changes

The Department of Motor Vehicles understands the need for timely account disablement for separating employees. DMV appreciates the audit's acknowledgement of the significant progress the agency has made, but we know there is still work to be done. DMV will continue to evaluate and implement process improvements to ensure the objectives of the security standards are met.

DMV is working diligently to remediate the issues identified in the audit. We look forward to working with you in the future. Please let me know if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard D. Holcomb", written over a horizontal line.

Richard D. Holcomb

SECRETARY OF TRANSPORTATION AGENCY OFFICIALS

As of June 30, 2020

Shannon Valentine, Secretary of Transportation

Department of Transportation

Stephen C. Brich, Commissioner

Department of Motor Vehicles

Richard D. Holcomb, Commissioner

FINDINGS SUMMARY

Finding	Agency	Follow-Up Status	Year First Issued
Improve Financial Reporting of Infrastructure Assets	Transportation	Corrective Action Ongoing ¹	2019
Improve Financial Reporting Classification with Net Position	Transportation	Resolved	2019
Ensure Performance Evaluations are Completed for Professional Service Contracts	Transportation	Resolved	2019
Improve Controls for Ensuring Quality Improvement Recommendations are Implemented	Transportation	Resolved	2019
Improve Database Security	Transportation	Resolved	2019
Improve Financial Reporting of Capital Assets Other than Roadway Infrastructure	Transportation	New	2020
Follow-Up with Supervisors to Ensure the Separating Checklist is Properly Completed	Transportation	New	2020
Continue Improving Controls for Processing Access Terminations and Changes	Motor Vehicles	Corrective Action Ongoing ²	2018
Improve Training on and Monitoring of the Employment Eligibility Process	Motor Vehicles	Deferred ³	2018
Implement Separation of Duties over Accounts Receivable Resulting from Dealership Transactions	Motor Vehicles	Resolved	2019
Practice Oversight of Service Providers Throughout the Lifecycle of a Project	Motor Vehicles	Resolved	2019
Improve Internal Controls for Reviewing Exceptions in the Commonwealth's Retirement System	Motor Vehicles	Resolved	2019
Implement Internal Controls to Terminate Benefits for Employees Convicted of a Felony	Motor Vehicles	Resolved	2019
Develop a Schedule of Routine Accounting Adjustments	Motor Vehicles	New	2020

¹ Reported in "Internal Control Findings and Recommendations" section.

² Reported in "Status of Prior Year Finding and Recommendation" section. In 2018, this finding had the title "Ensure Timely Notification of Terminations and Transfers".

³ Follow-up Status on prior year findings identified as "Deferred" indicates review of management's corrective action on a prior year finding will be performed in a future audit.