



AGENCIES OF THE SECRETARY OF TRANSPORTATION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2021

Auditor of Public Accounts
Staci A. Henshaw, CPA

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AUDIT SUMMARY

This report communicates our fiscal year 2021 audit results for the Virginia Department of Transportation (Transportation) and the Department of Motor Vehicles (Motor Vehicles). Collectively, these two agencies spent \$6.8 billion or 82 percent of the total expenses and collected 98 percent of revenues for the agencies under the Secretary of Transportation.

Our audits of these agencies support our Office's work on the Commonwealth's Annual Comprehensive Financial Report (ACFR). 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 supplemental information and attachments submitted to the Department of Accounts (Accounts);
- matters involving internal control and its operations necessary to bring to management's attention at both Transportation and Motor Vehicles;
- instances of noncompliance with applicable laws and regulations or other matters at both Transportation and Motor Vehicles 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.

This report also includes a Risk Alert applicable to Motor Vehicles that requires the action and cooperation of management at both Motor Vehicles and the Virginia Information Technologies Agency (VITA). Our separate audit of VITA will address the issue noted in this alert.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

This section is organized by agency and the header for each finding includes information about its type, severity, and whether it is a repeat finding. The severity classifications are discussed in more detail in the section titled “Independent Auditor’s Report.” After this section, in the section titled “Status of Prior Year Findings and Recommendations,” we provide the status of corrective actions for issues that management did not resolve from our previous audits of these agencies. Finally, this report also contains a “Risk Alert” that is applicable to Motor Vehicles.

Why the APA Audits Information Systems and Security

Transportation and Motor Vehicles collect, manage, and store significant volumes of financial and personal data within their mission critical systems. Because of the highly critical nature of this data, management at both agencies must take the necessary precautions to ensure the availability, integrity, and security of the data within their systems. We compared each agency’s practices to those required by the Commonwealth’s Information Security Standard, SEC 501 (Security Standard) and the Commonwealth’s Hosted Environment Information Security Standard, SEC 525 (Hosted Environment Security Standard). Our testwork produced the following recommendations for management at both agencies.

DEPARTMENT OF TRANSPORTATION

Develop a Process to Maintain Oversight of Third-Party Providers

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Transportation does not have a formal process to manage ongoing compliance of its third-party Software as a Service (SaaS) providers that fall under VITA’s Enterprise Cloud Oversight Service (ECOS). Transportation uses VITA’s ECOS to assist the agency with gaining assurance that its SaaS providers implement the minimum-security controls required by the Hosted Environment Security Standard.

Specifically, Transportation does not have a contractual agreement with VITA’s ECOS that outlines performance expectations for ECOS and Transportation’s responsibility to review and approve compliance documentation. Additionally, Transportation does not currently assign a security compliance role for ongoing oversight for VITA’s ECOS SaaS providers. Further, Transportation does not have procedures or a process to ensure VITA’s ECOS communicates with its SaaS providers to resolve weaknesses that are identified in the SaaS providers’ independent audit reports. Also, Transportation does not have a consistent list of individuals designated with the security compliance oversight role that will receive and review the compliance reports and independent audit assurance reports from ECOS for its 14 SaaS providers.

Executive branch agencies, such as Transportation, that receive information technology (IT) services from VITA must follow the Hosted Environment Security Standard, which requires agencies to receive written approval from VITA prior to procuring, signing, or engaging with a third-party hosted (cloud) service, specifically SaaS providers. Further, the Hosted Environment Security Standard, Section SA-9, states that the organization must define and document government oversight and user roles and responsibilities regarding external information system services, and employ appropriate processes, methods, and techniques to monitor security control compliance by external service providers on an ongoing basis.

Without a formal process to review and maintain VITA ECOS' documentation, Transportation cannot consistently validate that its SaaS providers implement security controls that meet the requirements in the Hosted Environment Security Standard to protect the agency's sensitive and confidential data. Turnover in the Compliance Manager position within Transportation's Information Technology Division resulted in Transportation being unaware of its lack of a contractual agreement with VITA's ECOS and its oversight responsibilities.

Transportation should locate or obtain a memorandum of understanding (MOU) with VITA's ECOS that documents the responsibilities of each party as they relate to providing the consolidated services. Additionally, the Information Technology Division should coordinate with the Office of Information Security to develop and document a formal process to monitor and maintain oversight of its third-party SaaS providers to ensure they comply with the Hosted Environment Security Standard and that VITA's ECOS is meeting all requirements in the MOU. Doing this will help maintain the confidentiality, integrity, and availability of sensitive and mission critical data.

DEPARTMENT OF MOTOR VEHICLES

Update End-of-Life Technology

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Motor Vehicles uses end-of-life technologies in its IT environment. Motor Vehicles maintains technologies that support mission essential data on IT systems running software that its vendor no longer supports.

We communicated the control 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 it containing descriptions of security mechanisms. The Security Standard prohibits agencies from using software that is end-of-life and the vendor no longer supports to reduce unnecessary risk to the confidentiality, integrity, and availability of Motor Vehicle's information systems and data.

Motor Vehicles should dedicate the necessary resources to evaluate and implement the controls and recommendations discussed in the communication marked FOIAE in accordance with the Security

Standard. Doing this will help to ensure that Motor Vehicles secures its IT environment and systems to protect its sensitive and mission critical data.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

This section provides the status of findings from prior years which have not been resolved, but reasonable progress has been made by the agency's management in addressing the recommendation. The status findings 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 TRANSPORTATION

Continue Efforts to Improve the Employee Separation Process

Type: Internal Control

Severity: Significant Deficiency

Repeat: Yes (first issued in fiscal year 2020)

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

As of June 30, 2021, Transportation's management is continuing its efforts to improve the agency's employee separation process. Management implemented some corrective actions during fiscal year 2021, including providing human resources staff at each of the nine highway districts with an updated standard operating procedure related to the dissemination, follow-up, and collection of separation checklists for prior employees. Transportation's management is still working to incorporate additional guidance for the timely completion of separation checklists into internal trainings for supervisors. Per management, the goal is to implement remaining corrective actions during fiscal year 2022.

Since Transportation's management has not fully addressed the recommendation issued from the fiscal year 2020 audit, we did not audit Transportation's separation procedures. We plan to audit this area when management has completed its corrective actions.

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)

Motor Vehicles continues to not properly manage access for employees who either separate from the agency or change job responsibilities. During the fiscal year, Motor Vehicles made significant process improvements to its account management. Specifically, Motor Vehicles began using a new form and streamlined the process to achieve efficiencies. Additionally, Motor Vehicles repositioned the Account Security Office within the Information Security Risk Management group. Finally, Motor Vehicles appointed an Information Security Officer for Access and Identity Management. However, Motor Vehicles has not completed corrective actions to manage access terminations and changes. We communicated the weaknesses to management in a separate document marked FOIAE under § 2.2-3705.2 of the Code of Virginia due to the descriptions of security mechanisms contained within the document.

The 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.

Continue Efforts to Develop a Schedule of Routine Accounting Adjustments

Type: Internal Control

Severity: Significant Deficiency

Repeat: Partial (first issued in fiscal year 2020)

Prior Title: Develop a Schedule of Routine Accounting Adjustments

As of June 30, 2021, Motor Vehicles' Finance Division (Finance) is continuing its efforts to develop a schedule of routine accounting adjustments. Finance implemented some corrective actions during the fiscal year, including identifying its routine accounting adjustments, drafting a master schedule to track adjustment activity, and developing or updating draft procedures for these adjustments. However, Finance experienced turnover during the period under review and was unable to finalize these items and complete its planned corrective actions. Per Finance management, the goal is to complete remaining corrective actions during fiscal year 2022.

Since Finance has not fully addressed the recommendation issued from the fiscal year 2020 audit, we did not audit the master schedule of routine accounting adjustments nor the draft policies and procedures. We plan to audit this area when management has completed its corrective actions.

RISK ALERT

What is a Risk Alert

During the course of our audit, we encountered internal control and compliance issues that are beyond the corrective action of Motor Vehicles' management alone and requires the action and cooperation of management and VITA. The following issue represents such a risk to Motor Vehicles and the Commonwealth during fiscal year 2021.

Unpatched Software

Repeat: No

Applicable to: Motor Vehicles

VITA's contractual partnership with various IT service providers to create the Commonwealth's Information Technology Infrastructure Services Program (ITISP) provides agencies with installation, maintenance, operation, and support of IT infrastructure components, such as servers, routers, firewalls, and virtual private networks. Motor Vehicles relies on these contractors procured by VITA for the installation of security patches in systems that support Motor Vehicles' operations. Additionally, Motor Vehicles relies on VITA as the contract administrator to maintain oversight and enforce the contract agreements with the ITISP contractors. VITA is responsible for enforcing the service level agreement. The ITISP contractors have not applied certain critical and highly important security patches to Motor Vehicles' server and workstation environment, all of which are past the 90-day Security Standard requirement.

The Security Standard requires the installation of security-relevant software updates within 90 days of release. The Security Standard does allow for varying time periods depending on factors such as the criticality of the update, but generally the ITISP uses a 90-day window from the date of release as its standard for determining timely implementation of security patches (Security Standard Section: SI-2 Flaw Remediation).

Missing system security updates cause an increased risk of cyberattack, exploit, and data breach by malicious parties. As of November 2021, VITA has not been able to compel the current ITISP contractors to install certain security patches to Motor Vehicles' systems to remediate vulnerabilities in a timely manner or taken actions to obtain these required services from another source.

Motor Vehicles is working with VITA and the ITISP contractors to ensure that all servers have all critical and highly important security patches installed. Additionally, our separate audit of VITA will address this issue.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 15, 2021

The Honorable Glenn Youngkin
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, 2021. 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 Comprehensive 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 Annual Comprehensive Financial Report for the Commonwealth of Virginia for the year ended June 30, 2021. 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 and recommendations 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 payable and expenses
- Accounts receivable and revenues
- Capital asset balances
- Cash and debt balances
- Commonwealth's retirement benefit system
- Contract procurement and management
- Federal grants revenue and expenses
- Financial reporting
- Human resources
- Information security and general system controls (including access controls)
- Inventory
- Payroll and other expenses

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

- Accounts payable and transfer payment expenses
- Accounts receivable and revenues
- Commonwealth's retirement benefit system
- Financial reporting
- Information security and general system controls (including access controls)

The following agencies under the control of the Secretary of Transportation are not material to the Annual Comprehensive 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
- Office of Intermodal Planning and Investment
- Office of Transportation Innovation
- Virginia Commercial Space Flight Authority
- Virginia Passenger Rail Authority
- Virginia Port 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 (internal control) was for the limited purpose described in the section "Audit Objectives" and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies in internal control that we consider to be significant deficiencies that are classified as such in the sections titled "Internal Control and Compliance Findings and Recommendations" and "Status of Prior Year Findings and Recommendations."

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. 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.

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 financial 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 Findings and Recommendations."

Transportation has not completed taking adequate corrective action with respect to a previously reported finding titled "Follow-Up with Supervisors to Ensure the Separating Employee Checklist is Properly Completed." Further, Motor Vehicles has not completed taking adequate corrective action with respect to the previously reported findings titled "Continue Improving Controls for Processing Access

Terminations and Changes” and “Develop a Schedule of Routine Accounting Adjustments.” Accordingly, we included these findings in the section titled “Status of Prior Year Findings and Recommendations.” Transportation has taken adequate corrective action with respect to audit findings identified as resolved in the [Findings Summary](#) included in the Appendix.

Since each of the findings noted above have been identified as significant deficiencies, 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, 2021. The Single Audit Report will be available at www.apa.virginia.gov in February 2022.

Exit Conference and Report Distribution

We provided management of Transportation and Motor Vehicles a draft of this report on January 14, 2022, 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. Additionally, VITA was made aware of the risk alert and will respond to the issue in their separately issued audit report anticipated to be released in February 2022

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

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Richmond, Virginia 23219

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January 20, 2022

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 2021. Below is the Department's response, which should address the area of concern:

Develop a Process to Maintain Oversight of Third-Party Providers

VDOT has developed a plan to identify and track all third party hosted systems provisioned as Software as a Service (SaaS) and subject to the Commonwealth of Virginia (COV) Enterprise Cloud Oversight Service. The plan details each third party hosted system provider and the artifacts they must provide to assure they are meeting governance and security requirements under their contractual agreement with COV. In a material instance of non-compliance, VDOT will take appropriate action by contacting the third party hosted system provider for a resolution. In addition, VDOT has submitted a draft Memorandum of Understanding (MOU) to VITA to formalize the scope, services, roles, responsibilities, costs, and contacts associated with the consolidated VITA Enterprise Cloud Oversight Services (ECOS).

We appreciate the professionalism and guidance provided by your staff and look forward to working with you next year.

Sincerely,

Stephen C. Brich, P.E.
Commissioner

c: The Honorable Sheppard Miller III
Executive Staff

VirginiaDOT.org
WE KEEP VIRGINIA MOVING



COMMONWEALTH of VIRGINIA

Department of Motor Vehicles
2300 West Broad Street

Post Office Box 27412
Richmond, VA 23269-0001

January 21, 2022

Ms. Staci A. Henshaw
Auditor of Public Accounts
Post Office Box 1295
Richmond, VA 23218

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, 2021. 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.

Update End-of-Life Technology

The Department of Motor Vehicles understands the need for all software to be under active support from the developers to remediate security vulnerabilities as they are disclosed. DMV has initiated a compressive review of our internal and vendor hosted platforms to identify any additional end-of-life technologies and establish a process to proactively identify those technologies that are scheduled for end-of-life in advance of that date, affording us the ability to upgrade or replace the technology prior to losing the necessary support.

Continue Improving Controls for Processing Access Terminations and Changes

The Department of Motor Vehicles understands the need for timely access termination 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 is implementing additional process improvements to ensure the objectives of the security standards are met.

Continue Efforts to 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. DMV has been executing our plan to develop,

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document, and retain schedules for the adjustments. DMV anticipates completing the remaining corrective actions in FY 2022.

Unpatched Software

The Department of Motor Vehicles recognizes the need for the timely application of security patches and the need for service providers to meet their contractual obligations. DMV will continue our oversight of the VITA partners in the delivery of services and take additional steps to address risk when they fail to meet the requirements.

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 that reads "Linda B. Ford". The signature is written in a cursive style with a large, stylized "L" and "F".

Linda B. Ford
Acting Commissioner

SECRETARY OF TRANSPORTATION AGENCY OFFICIALS

As of June 30, 2021

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	Resolved	2019
Improve Financial Reporting of Capital Assets Other than Roadway Infrastructure	Transportation	Resolved	2020
Continue Efforts to Improve the Employee Separation Process	Transportation	Corrective Action Ongoing ²	2020
Develop a Process to Maintain Oversight of Third-Party Service Providers	Transportation	New ¹	2021
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
Continue Efforts to Develop a Schedule of Routine Accounting Adjustments	Motor Vehicles	Corrective Action Ongoing ²	2020
Update End-of-Life Technology	Motor Vehicles	New ¹	2021

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

² Reported in "Status of Prior Year Finding and Recommendation" section.

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.