



AGENCIES OF THE SECRETARY OF TRANSPORTATION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2019

Auditor of Public Accounts
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AUDIT SUMMARY

This report communicates our fiscal year 2019 audit results for the Virginia Department of Transportation (Transportation) and the Department of Motor Vehicles (Motor Vehicles). Collectively, these two agencies spent \$6.1 billion or 86 percent of the total expenses for the agencies under the Secretary of Transportation and collected 99 percent of the 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) and Single Audit. Overall, we found the following:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and reporting system, each agency's accounting records, and in supplemental information submitted to the Department of Accounts (Accounts);
- matters involving internal control and its operations at both Transportation and Motor Vehicles necessary to bring to management's attention;
- instances of noncompliance 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.

In the 2018 Secretary of Transportation audit report, we included a Comment to Management to communicate the challenges that Transportation's complex funding and operations creates for financial reporting. During the current audit, we noted that leadership at Transportation has taken proactive measures to strengthen financial reporting and that some measures are still in the process of being implemented. Furthermore, this year we noted that Transportation is now encountering an additional challenge caused by employee turnover, which could negatively affect the momentum management has made to improve financial reporting. This year's report includes a new Comment to Management to highlight the actions Transportation's management has taken since last year, communicate the additional challenges caused by employee turnover, and discuss management's plans for addressing these future risks to financial reporting.

- TABLE OF CONTENTS -

Pages

AUDIT SUMMARY

COMMENT TO MANAGEMENT

Department of Transportation 1-3

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Department of Transportation 3-8

Department of Motor Vehicles 8-12

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Department of Motor Vehicles 13

INDEPENDENT AUDITOR'S REPORT 14-17

AGENCY RESPONSES

Department of Transportation 18-20

Department of Motor Vehicles 21-22

SECRETARY OF TRANSPORTATION OFFICIALS 23

APPENDIX – FINDINGS SUMMARY 24-25

COMMENT TO MANAGEMENT

What is a Comment to Management?

During the course of our audit, we become aware of a situation at Transportation that creates challenges impacting financial reporting in the future. When these challenges are of such magnitude that it could adversely impact financial reporting for the Commonwealth, we communicate the situation through a comment to management. While agency personnel may also be aware of this situation and may be researching and actively preparing for the challenge, we issue this communication to highlight the situation to a broader audience in order to encourage continued progress by agency personnel and to ensure there is visibility into their efforts by senior level management of the entity and the Commonwealth.

Applicable to: Transportation

In the past year and in the near future, Transportation's Fiscal Division (Fiscal) will experience notable turnover because of retirements. Between June 2019 and June 2020, Fiscal management anticipates that it will lose its Controller, Assistant Controller for Financial Reporting, and Infrastructure Specialist to retirement, who each have over 20 years of experience. These individuals play a pivotal role in the reporting of several key financial reporting submissions to Accounts for inclusion in the Commonwealth's CAFR. These departures represent a loss of 88 years or a 10 percent loss of experience within Fiscal. Management anticipates that more retirements will continue in the future as nearly a quarter of Fiscal's workforce has over 25 years of experience. While the 88 year drop in experience level is outside of the control of Fiscal, it is Transportation management's responsibility to work through this situation and ensure proper financial reporting and controls are maintained. Given that Transportation is material to the CAFR and produces and provides Accounts with over 70 individual submissions in support of the CAFR, the Commonwealth as a whole has a vested interest in the accuracy of Transportation's financial reporting.

In the past year, Fiscal has improved its financial reporting by decreasing its number of material weaknesses from four to zero. To maintain its momentum, Fiscal will continue to need strong leadership and support as it faces notable turnover. This strong leadership and support will have to come from different levels and happen at different times as it works through the challenges of turnover. However, this loss of experience and knowledge, specifically around the complex areas of infrastructure capitalization and debt reporting, increases the risk of financial reporting errors over the next few years. Despite this increase in risk, management should use this as an opportunity to validate and improve its business processes, especially in the areas of infrastructure capitalization and debt reporting.

The challenges of turnover, because of retirement, is not unique to Fiscal within Transportation. As a result, management has already engaged a consultant to study Transportation's current and

changing staffing needs to develop recommendations as to type of workforce that Transportation will need in the future. Below are some of the specific steps taken in response to expected turnover in Fiscal:

- For succession planning, Transportation created the Deputy Controller position. The Controller has been mentoring the Deputy Controller on various fiscal operations that impact financial reporting since July 2019 and will continue to do so until April 2020 in preparation for the Deputy Controller taking over all of the responsibilities of the Controller position.
- The Deputy Controller assumed operational responsibility over Fiscal in January 2020, four months in advance of the current Controller's retirement. The Deputy Controller is a Certified Public Accountant (CPA), has been a member of the Fiscal management team for almost five years, and has over 29 years of experience with the Commonwealth.
- To place more emphasis on the accuracy of financial reporting, Fiscal management has restructured the Assistant Controller positions and hired additional staff. The General Accounting Section is now under the purview of the Assistant Controller for Financial Reporting and General Accounting to better align fiscal operations with financial reporting.
- The new Assistant Controller for Financial Reporting and General Accounting was brought on board well before fiscal year 2020 year-end, giving him time to become familiar with Transportation's financial reporting requirements. The new Assistant Controller is a CPA and comes from other Commonwealth agencies with experience in financial reporting and general accounting.
- Transportation restructured the Financial Reporting section and created the Financial Reporting Manager position. Now all employees who perform financial reporting functions report to the Financial Reporting Manager. The Financial Reporting Manager has been a member of Fiscal for 15 years.
- The new Infrastructure Specialist is a CPA with 22 years of accounting experience, including eight years of experience with the Commonwealth, including four years at Transportation.
- To ensure existing staff can step in as needed, Fiscal management has implemented cross-training measures. In various sections within Fiscal, staff have been cross-trained on fiscal operations and financial reporting.
- To ensure the accuracy and completeness of financial reporting, Fiscal continues to collaborate with Accounts annually to discuss changes in financial reporting and reach a consensus as to what information Fiscal will need to supply to Accounts for the CAFR.
- To ensure that future staff are aware of the individual steps needed to complete a task, Fiscal documented many of its policies and procedures related to fiscal operations and financial reporting.

- Transportation hired an experienced CPA to review the financial reporting procedures for infrastructure in detail and provide recommendations for improvement.

Future success will be contingent upon continued momentum by Fiscal. The above actions could go a long way to reduce the risks associated with the turnover Fiscal has experienced and will continue to experience. However, Transportation should not view the content of this comment to management as a remedy for all current and future risks and should take other actions as necessary to ensure Fiscal can continue the proper reporting of financial information for the Commonwealth's CAFR.

INTERNAL CONTROL AND COMPLIANCE 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 Findings and Recommendations" to report on the status of corrective action for issues that were not resolved from our previous audit of Motor Vehicles.

DEPARTMENT OF TRANSPORTATION

Why the APA Audits Financial Reporting

Transportation submitted over 70 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 to management.

Improve Financial Reporting of Infrastructure Assets

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

During fiscal year 2019, Fiscal designed, documented, and implemented detailed procedures over its infrastructure capitalization process as recommended in the prior year report. However, because the process is manual, it is difficult for Fiscal to implement controls and procedures that can adequately reduce the risk of errors. Fiscal uses a completely manual process to distinguish between capitalizable and non-capitalizable projects. Fiscal does not use control totals or any other analysis to ensure the accuracy and completeness of the capitalizable amounts reported. Fiscal did not detect changes in reporting categories of projects between fiscal years and did not identify instances where projects had two conflicting reporting categories, leading to two different accounting treatments. Additionally, in

cases where Fiscal changed a project's reporting category due to subsequent review, Fiscal did not always adjust prior construction-in-progress and infrastructure asset amounts. In fiscal year 2019, Fiscal overstated net capital assets by a net \$7.6 million, which is the combination of an overstatement of \$14.8 million and an understatement of \$7.2 million. The process for reporting infrastructure assets has become so complex that making a mistake in one data field on one project in the Commonwealth's accounting and reporting system is a significant risk and could potentially result in a material misstatement.

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. Because the process is manual and projects range in value, Fiscal cannot implement processes and controls that can adequately reduce the risk of errors and omissions.

The State Comptroller's annual Directive requires Transportation to report capital assets including infrastructure for inclusion in the Commonwealth's CAFR. 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 and that all assets are periodically reviewed to avoid material overstatement.

Since legislative and operational changes that occurred since implementation have complicated the infrastructure capitalization process, Fiscal should re-evaluate their financial reporting methodology for infrastructure assets. Fiscal should consider best practices and methods that other state governments use to capitalize highway infrastructure. Fiscal should seek ways to automate the financial reporting of infrastructure assets to eliminate reliance on manual processes and reduce errors.

Improve Financial Reporting Classification within Net Position

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Fiscal does not consider how refinanced debt for non-Commonwealth capital assets should be classified when developing the Net Position section of the CAFR's Statement of Net Position. While the new debt is properly classified within the Liabilities and Deferred Outflow of Resources section, Transportation does not consider which assets (Commonwealth or non-Commonwealth) were acquired

with the original debt to determine how the new debt should impact the items reported within the Net Position section.

As addressed in the GASB Comprehensive Implementation Guide, Section 7.23.6, if debt is issued to refund existing capital-related debt, “the replacement debt assumes the capital characteristics of the original issue.” Further, Section 7.23.3 of the GASB Comprehensive Implementation Guide states that “premiums, discounts, and deferred outflows of resources or deferred inflows of resources from refundings ‘follow the debt’ in calculating the components of net position... if the debt proceeds are not restricted for capital or other purposes, [these components] would be included in the calculation of unrestricted net position.” Bond-funded expenses that are not capitalized should not be included in the calculation of Net Investment of Capital Assets; examples include impaired, transferred, and disposed capital assets.

While there is zero impact to the total net position of the Commonwealth, incorrectly including the new debt related to non-Commonwealth capital assets within the calculation for Net Investment in Capital Assets makes it appear that a larger portion of the debt of the Commonwealth is being used to acquire capital assets that will remain property of the Commonwealth. Conversely, an equal amount of new debt related to the original debt used to generate non-Commonwealth capital assets is being excluded from unrestricted net position.

According to Transportation’s management, in September 2016, Transportation and Accounts personnel met to discuss Transportation’s calculation of Net Investment in Capital Assets reported within its annual submissions in support of the Commonwealth’s financial statements. However, during this meeting and in further communications between the agencies, dialogue regarding the effect of debt refinancing did not occur. Transportation’s management indicated that, based on these discussions and initial review of the proposed submission by Accounts, Transportation assumed that refinanced debt should be considered as proceeds used for Commonwealth capital assets, as the refinancing proceeds were used to pay off a debt of the Commonwealth. Transportation was not aware of this requirement set by GASB and, as a result, Transportation’s written policies and procedures did not address the classification of refinanced debt for non-Commonwealth capital assets in the Statement of Net Position.

Fiscal should improve internal policies and procedures to ensure that classifications within the Net Position section of the Statement of Net Position are accurate, reasonable, and properly apply applicable accounting standards. Management should proactively assess these procedures annually to ensure that items being reported are being properly captured. Staff within Fiscal should consider attending trainings that focus on GASB requirements.

Why the APA Audits Compliance with Federal Requirements

Over \$1.1 billion, or approximately 20 percent, of Transportation's operations are supported by federal funding. Not complying with federal requirements could jeopardize future federal funding. In support of the Commonwealth's federal Single Audit, we reviewed Transportation's compliance with federal requirements for the Highway Planning and Construction Cluster. Subsequently, our federal testwork resulted in the following recommendations to management.

Ensure Performance Evaluations are Completed for Professional Service Contracts

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Project managers for professional service contracts are not always completing performance evaluations for consultants. Of the 18 professional services contracts we tested, Transportation did not have any evidence that the project manager completed a performance evaluation for 13 (or 72 percent) of the contracts. 2 C.F.R. § 200.317 requires each state to use the same standards for federal procurement that it uses for state procurement. The Virginia Public Procurement Act § 2.2-4300(C) states that public bodies should obtain high quality goods and services. Section 7.2 of Transportation's Manual for the Procurement and Management of Professional Services established the design of performance evaluation controls and assigns related responsibilities in order to ensure the quality of the services received. The manual requires the project manager to evaluate and document the consultant's performance, at a minimum, in January and June of each year over the duration of the project and upon expiration of the contract.

During fiscal year 2019, Transportation managed over 160 professional service contracts valued at approximately \$990 million. Transportation uses the performance evaluations as a control to measure each consultant's performance and to determine whether it is appropriate to continue to do business with the consultant in the future. If Transportation does not ensure that performance evaluations are completed as designed, Transportation places the Commonwealth at risk of not being able to hold consultants accountable for nonperformance.

According to certain project managers, they were not completing the performance evaluations because their responsibility for the control activity was not communicated to them and there was a lack of monitoring by management. Transportation should ensure that project managers are aware of the performance evaluation requirements and should dedicate the resources necessary to ensure that project managers are completing performance evaluations as required.

Improve Controls for Ensuring Quality Improvement Recommendations are Implemented

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Transportation's Construction Division designed and implemented its Construction Quality Improvement Program (Improvement Program) to meet federal requirements for developing a quality assurance program (23 C.F.R § 637.205). During fiscal year 2019, the Improvement Program reviewed 148 contracts which were valued at approximately \$400 million. Most reviews resulted in recommendations for making improvements. To ensure recommendations are implemented, Transportation established the control of requiring an Area Construction Engineer (Engineer) to perform follow-up procedures and document that Transportation implemented the recommendations. The Improvement Program Manager (Manager) is responsible for collecting the documented follow-up procedures from the Engineer to monitor compliance with the policy. Of the fifteen reviews we tested, the Manager could not provide documentation as evidence to whether or not the Engineer performed the follow-up control activities for two of the reviews. Without documentation of the follow-up control activities, Transportation does not have evidence that it is making the necessary improvements.

According to management, the lack of documentation of follow-up was not identified because the current process the Manager uses for tracking follow-up control activities performed by the Engineer is labor intensive and relies on a paper-based work flow to monitor follow-up control activities. The Construction Division is aware of this issue and is in the process of implementing a new automated tracking system. Management should continue with its efforts to redesign its processes or explore other options, as necessary.

Why the APA Audits Information System Security

Transportation collects, manages, and stores significant volumes of financial and personal data within its mission critical systems. Because of the highly critical nature of this data, Transportation's management must take the necessary precautions to ensure the availability, integrity, and security of the data within its systems. We compared Transportation's practices to those required by the Commonwealth's Information Security Standard, SEC 501 (Security Standard) in the area of database security. Subsequently, our database security testwork resulted in the following recommendation to management.

Improve Database Security

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Transportation does not have a security control in place for a sensitive system's database that is required by the Security Standard.

We communicated the control weakness to management in a separate document marked Freedom of Information Act (FOIA) Exempt under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. The Security Standard requires the implementation of certain controls that reduce unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information. By not meeting the minimum requirements in the Security Standard and aligning the database's settings and configurations with best practices, Transportation cannot ensure the confidentiality, integrity, and availability of data within the database or the information it reports.

Transportation should implement the security control discussed in the communication marked FOIA Exempt in accordance with the Security Standard.

DEPARTMENT OF MOTOR VEHICLES

Why the APA Audits Financial Reporting

Motor Vehicles collects approximately \$2.8 billion annually in various taxes and fees including, but not limited to, motor vehicle sales and use tax, vehicle registrations, fuels tax, fishing licenses, and birth certificates. We have audited the internal controls over the receipt of these funds and Motor Vehicles' financial reporting to ensure its activity was accurate, complete, and properly reported. Subsequently, our testwork resulted in the following recommendation to management.

Implement Separation of Duties over Accounts Receivable Resulting from Dealership Transactions

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Motor Vehicles does not have proper separation of duties over accounts receivable resulting from errors in transactions processed by dealerships participating in the agency's Online Dealer program. Employees in the Dealer Services Work Center (Work Center) review dealership transactions to ensure there are no errors. If a Work Center employee identifies an error during their review of transactions, that same employee is responsible for notifying the dealership of the error and creating a receivable for

Motor Vehicles. Should the dealership's error result in the dealership owing money to Motor Vehicles, the dealership remits payment directly to the Work Center employee, who then processes it and sends it to the cashier's office within Fiscal Services for deposit. The same employee that created and recorded the receivable and communicated it to the dealership is responsible for removing the receivable when the funds are received. Allowing the Work Center to identify, create, and collect account receivables poses a separation of duties violation.

Separation of duties must exist for financial transactions as part of any sound system of internal controls. Additionally, internal controls should provide a safeguarding of assets, which includes accounts receivable. CAPP Manual Topic 20905 indicates agency management is responsible for instituting internal control over recording of financial transactions that is designed to provide reasonable assurance regarding the reliability of those records. Not having proper separation of duties increases Motor Vehicles' risk that fraud or errors will go undetected.

The Work Center does not have formal, written policies and procedures over their process of reviewing dealership transactions. In addition, the Work Center does not typically communicate errors resulting in the creation of an accounts receivable from dealerships to Fiscal Services. Therefore, management overseeing Fiscal Services was not aware that the Work Center was identifying, creating, and collecting accounts receivable.

The Work Center should create formal, written policies and procedures to document their process of reviewing dealership transactions and have management of Fiscal Services evaluate those internal controls for reasonableness to ensure proper separation of duties over accounts receivable owed to Motor Vehicles.

Why the APA Audits Information System Security

Motor Vehicles collects, manages, and stores significant volumes of financial and personal data within its mission critical systems. Because of the highly critical nature of this data, Motor Vehicles' management must take the necessary precautions to ensure the availability, integrity, and security of the data within its systems. We compared Motor Vehicles' practices to those required by the Commonwealth's Security Standard in the areas of database security, web application security, oversight of sensitive systems, and information system access. Subsequently, our information system security testwork resulted in the following recommendation to management.

Practice Oversight of Service Providers Throughout the Lifecycle of a Project

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Motor Vehicles is not practicing oversight of the third-party service provider (provider) managing one of its systems used for collecting and recording revenues. Motor Vehicles communicated security requirements to the provider during the development of the system and ensured the database met the minimum-security requirements when the first phase went into production; however, Motor Vehicles did not plan to begin oversight of this portion of the new system until all phases of the project are in production.

The Commonwealth's Hosted Environment Security Standard, SEC 525 (Hosted Standard), Section 1.1, requires that Motor Vehicles' management remains accountable for maintaining compliance with the requirements in the Hosted Standard through documented agreements and oversight of services provided. Additionally, Section SA-9 requires Motor Vehicles to employ processes to monitor security control compliance by external providers on an ongoing basis.

Collecting and recording revenues is mission critical to Motor Vehicles and the Commonwealth. By not maintaining oversight of the first phase placed into production, Motor Vehicles did not detect that the database was no longer meeting the minimum-security requirements in the contract, and this increased the risk to the confidentiality, integrity, and availability of sensitive and mission critical data used in collecting and recording revenues.

According to management, Motor Vehicles is not maintaining oversight because the contract between Motor Vehicles and the provider has that Motor Vehicles will begin oversight once the provider completes all phases of the project. Management should reevaluate its contract with the provider to ensure it does not preclude Motor Vehicles from continually meeting requirements in the Hosted Standard and, if there are none, begin oversight of the system in production. Additionally, management should develop a plan to remediate any perceived or actual barriers that may cause Motor Vehicles to not practice oversight of the provider.

Why the APA Audits an Agency's Controls Over their Information in the Commonwealth's Retirement System

The Commonwealth's retirement system is used to calculate the total pension liability for the Commonwealth. Individual agencies are responsible for updating the records within the retirement system related to their employees. As a result, Motor Vehicles must take adequate precautions to ensure the integrity of these records. To determine if management implemented these precautions, we compared Motor Vehicles practices to the guidance provided by Accounts and the Retirement System. Our evaluation of Motor Vehicles' internal controls resulted in the following recommendation to management.

Improve Internal Controls for Reviewing Exceptions in the Commonwealth's Retirement System

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Motor Vehicles' Human Resources is not reviewing and addressing items on the retirement system's automated reconciliations (automated reconciliations). The automated reconciliations compare information in the retirement system to other sources and reports exceptions. CAPP Manual Topic 50410, pages 33-38, describe each of the automated reconciliations and the actions agencies should take to resolve exceptions. This topic also states that the agency should maintain any supporting documentation of its reconciliations for audit purposes. Without reviewing the automated reconciliations, Motor Vehicles cannot ensure that amounts are accurate or correcting actions are completed.

According to management, there are several contributing factors negatively impacting its ability to review the automated reconciliations. Turnover in Human Resources is the primary factor, which is compounded by a lack of adequately documented policies and procedures and overall understanding of what is required to ensure this control is operating as intended. Additionally, Human Resources is not obtaining the necessary automated reconciliations timely from its payroll service provider in order to complete its review and any correcting actions.

To improve internal controls, management should determine which staff will be responsible for completing the control of reviewing the automated reconciliations. In addition, Human Resource staff should attend training to obtain a better understanding of the processes required by the CAPP Manual and ensure that these controls are well documented within internal policies and procedures. Lastly, management should work with the Motor Vehicles' payroll service provider to ensure Human Resource staff is receiving the automated reconciliation reports in a timely manner.

Why the APA Audits Termination of Benefits for Employees Convicted of a Felony

The Code of Virginia requires the forfeiture of all pension and related benefits if a state employee is convicted of a felony associated with the performance of the employee's job and the person's employer determines that the felony arose from misconduct in a covered position on or after July 1, 2011. As of June 30, 2019, Motor Vehicles had over 1,900 salary employees across nearly 100 locations. Therefore, we performed fieldwork to determine whether Motor Vehicles maintained adequate internal controls over this compliance requirement. Our evaluation of Motor Vehicles' internal controls resulted in the following recommendation to management.

Implement Internal Controls to Terminate Benefits for Employees Convicted of a Felony

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Motor Vehicles has not designed, implemented, or documented internal controls to identify when it is necessary to initiate the benefits forfeiture process against an employee who is convicted of a felony in relation to his/her employment. One former employee was convicted of a felony associated with the employee's job responsibilities at Motor Vehicles during the fiscal year. Management did not initiate the process of terminating the individual's benefits with the Virginia Retirement System (Retirement System) until four months after the conviction date.

Section 51.1-124.13 of the Code of Virginia requires the forfeiture of all pension and related benefits if a state employee is convicted of a felony associated with the performance of the employee's job and the person's employer determines that the felony arose from misconduct in a covered position on or after July 1, 2011. To aid agencies in meeting this requirement, the Retirement System created a form known as the [VRS-180](#) form. This form contains background information and steps an agency can take to meet the requirements of the Code of Virginia. Without adequately designing and implementing internal controls over this process, an individual convicted of a qualifying felony may be able to obtain benefits through the Retirement System.

Management asserts that Motor Vehicles' lack of experience in completing this process is the reason why there is no control for making the required notification and using the VRS-180 form. In addition, there was confusion between Motor Vehicles' Human Resources and Law Enforcement divisions as to which division was responsible for initiating this process.

To implement internal controls, management should establish a process that identifies when it is necessary to initiate the benefits forfeiture process in accordance with the Code of Virginia. Furthermore, management should clarify who is responsible for the implementation of these controls. Once management has designed and implemented adequate internal controls, management should ensure these controls are adequately documented within policies and procedures.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

DEPARTMENT OF MOTOR VEHICLES

Continue Improving Controls for Processing Access Terminations and Changes

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Yes (first issued in fiscal year 2018)

Prior Title: Ensure Timely Notification of Terminations and Transfers

Motor Vehicles' management acknowledges that the agency is still making improvements to its controls for removing access to agency and statewide systems for employees who either separate from the agency or change job responsibilities. This year, we noted an instance in which an employee's supervisor did not notify a system owner timely to remove the user's access. Instead, the user's access was later removed during the next system access review. System access reviews are completed annually or semi-annually based on the system.

The Security Standard, Sections PS-4 and AC-2, requires Commonwealth organizations, upon termination of an individual's employment to disable information system access within 24-hours and to notify account managers when users are terminated or transferred, respectively. In addition, Motor Vehicles' Information Technology Access Control Policy calls for prompt termination of systems access upon termination or transfer. Untimely deletion of access to systems can expose the agency to inappropriate activity by individuals no longer employed by the agency or no longer in their previous position.

Management should continue their efforts to improve the notification process between supervisors and system owners to ensure required changes to user access are occurring in a timely manner. Additionally, management should also consider whether supervisors are the best initiators of the notification process to determine if another party should be responsible for initiating this process.



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December 13, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Agencies of the Secretary of Transportation** for the year ended June 30, 2019. 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 and Single 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, 2019, and test compliance for the Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, in each agency's accounting records, and in the supplemental information 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 provisions of applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions of 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 provisions of applicable laws, regulations, contracts, and grant agreement.

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 federal grant program, 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
- Federal grants management for the Highway Planning and Construction Cluster Catalog of Federal Domestic Assistance 20.205, 20.219, and 23.003
- 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 Department of Aviation (Aviation), the Department of Rail and Public Transportation (Rail and Public Transportation), and Motor Vehicle Dealer Board also fall under the control of the Secretary of Transportation. However, these agencies are not material to the Comprehensive Annual Financial Report for the Commonwealth of Virginia. We have a risk-based approach for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Aviation, Rail and Public Transportation, and the Motor Vehicle Dealer Board are reviewed by our office under this approach. The results of our review of these agencies can be found at www.apa.virginia.gov. In addition, the Virginia Port Authority and Virginia Commercial Space Flight Authority, which also fall under the control of the Secretary of Transportation, were audited by other auditors, and their reports can be found at the link above. Accordingly, these agencies were not included in the scope of this report.

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 the 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 and federal compliance 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 certain deficiencies in internal control that we consider to be significant deficiencies, which are described 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 or noncompliance 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 or material noncompliance with a type of compliance requirement for a federal program 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 reporting system, each agency's accounting records, and in the supplemental information submitted to the Accounts, including federal schedules.

We noted certain matters involving internal control and its operation and compliance with provisions of 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 and Compliance Findings and Recommendations" and "Status of Prior Year Findings and Recommendations."

Motor Vehicles has not completed taking adequate corrective action with respect to the previously reported finding titled "Ensure Timely Notification of Terminations and Transfers." Accordingly, we included this finding in the section titled "Status of Prior Year Findings and

Recommendations.” Motor Vehicles and Transportation have taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Since the findings noted above include those that 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” and the “Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance,” which are included in the Commonwealth of Virginia’s Single Audit Report for the year ended June 30, 2019. The Single Audit Report will be available at www.apa.virginia.gov in February 2020.

Exit Conference and Report Distribution

We provided management of Transportation and Motor Vehicles a draft of this report on January 14, 2020, for review and development of their response. Management’s response to the findings identified in our audit is included in the section titled “Agency Response.” 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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

GDS/vks



COMMONWEALTH of VIRGINIA

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

Stephen C. Brich, P.E.
COMMISSIONER

January 24, 2020

Ms. Martha S. Mavredes
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23219

Dear Ms. Mavredes:

The Department of Transportation appreciates the opportunity to respond to the Secretary of Transportation's audit report for Fiscal Year 2019. 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:

Comment to Management on Financial Reporting

The Department concurs with the Auditor of Public Accounts' (APA) recognition that turnover in key positions within Fiscal Division has occurred this fiscal year. However, the Department has mitigated this risk by hiring experienced staff in key positions, cross-training staff, and documenting policies and procedures. In addition, the Department will continue to validate and improve our business processes, especially in the areas of infrastructure capitalization and debt reporting.

Improve Financial Reporting of Infrastructure Assets

The Department acknowledges the identification and classification of infrastructure assets has become more complex over the last few years due to changes in programmatic funding. During the year, the Department prepared detailed procedures for the infrastructure calculation and we will continue to review our processes and controls to ensure completeness and accuracy over financial reporting of infrastructure assets.

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Improve Financial Reporting Classification within Net Position

The Department acknowledges a classification error was made in the reporting of net position and although this resulted in zero impact to the total net position of the Commonwealth, the appearance was that a larger portion of the debt was used to finance Commonwealth-owned assets. The Department will improve its policies and procedures to ensure the effects of refinanced debt are appropriately classified in net position.

Ensure Performance Evaluations are Completed for Professional Service Contracts

The Department appreciates and acknowledges the audit finding of lack or limited number of consultant performance evaluations on active contracts. The Department also recognizes the importance of timely completion of the evaluations. The Manual for the Procurement and Management of Professional Services Section 7.2 clearly outlines the requirements and responsibilities of such evaluations referenced in your findings.

On January 16, 2020, the Department submitted your findings to the respective Divisions responsible for the administration of contracts. This email was sent as a reminder to the respective contract owners of the responsibility to complete performance evaluations of contracts by the end of January and another by the end of June. Each Division Administrator will certify the completion of the performance evaluations to the Alternative Project Delivery Division. Furthermore, the Department is exploring the feasibility of developing automated reminders and reports through the existing contract tracking system. With the addition of a tracking mechanism, we believe that the agency will be in a better position to monitor compliance.

Improve Controls for Ensuring Quality Improvement Recommendations are Implemented

The Department understands the importance of making sure that recommendations identified through the Construction Quality Improvement Program (CQIP) are implemented. We will identify all CQIP reports that have pending follow-up activities that exceed 30 days and elevate them to the applicable District Construction Engineer and Assistant State Construction Engineer to ensure that they are completed; this will occur monthly. Further, this item will be discussed at the regularly scheduled District Construction Engineer Community of Practice meetings to ensure that CQIP follow-up activities are addressed. The Department will also look into the feasibility of employing an automated solution to ensure quality improvement recommendations are implemented in the future.

Improve Database Security

The Department has modified the log file review process to change the independent reviewers to the Division Head and Designee who are the application business owners. The new process automatically generates audit log files daily and emails the files to the business owner and designee. The Information Technology Division will conduct training on reviewing the audit logs

Ms. Mavredes
January 24, 2020
Page 3

and has developed a procedure that provides guidance on how to review and identify anomalies. Upon completion of the business owner review, the log files are stored on the VDOT file server and retained for 12 months. This process is being implemented with a planned completion by January 31, 2020.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Stephen C. Brich".

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 22, 2020

Ms. Martha S. Mavredes
Auditor of Public Accounts
Post Office Box 125
Richmond, VA 23219

Dear Ms. Mavredes:

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, 2019. 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.

Implement Separation of Duties over Accounts Receivable Resulting from Dealership Transactions

The Department of Motor Vehicles understands the need for separation of duties in the identification and collect of monies owed to the agency. Identification will continue to be done by the Dealer Services Work Center, but collection will occur in the Accounts Receivable Department.

Practice Oversight of Service Providers Throughout the Lifecycle of a Project

The Department of Motor Vehicles concurs with the finding and recommendations provided and has begun the process to provide a higher degree of oversight from the moment the vendor has the ability to present risk to the agency. Additionally, we have started discussions with the Commonwealth CISO on possible changes that could be made to Commonwealth Security Standards to establish more concrete requirements on what needs to be reviewed as part of vendor oversight.

Improve Internal Controls for Reviewing Exceptions in the Commonwealth's Retirement System

DMV concurs with the APA finding related to the reconciliation of Virginia Retirement System (VRS) files. DMV's new compensation manager has documented the process for reconciliation and all staff who have primary or back up responsibility will be trained.

Implement Internal Controls to Terminate Benefits for Employees Convicted of a Felony

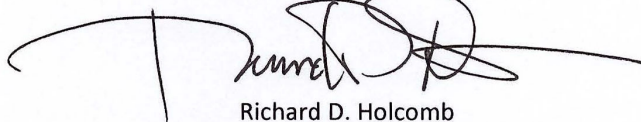
DMV acknowledges that there was a gap in linking the felony conviction to the VRS requirement and beginning the benefit forfeiture process. Given the length of time between the individual leaving DMV employment and the guilty plea, HR was unaware of his prosecution and did not track the outcome. DMV has now put in place an internal process that will keep HR apprised of all pending court cases involving current and former employees that may result in the initiation of the VRS process. A copy of the procedures has been provided to the APA and DMV is willing to share these with other agencies as well. DMV management is confident that moving forward, the agency will initiate the benefits forfeiture process in a timely manner.

Continue Improving Controls for Processing Access Terminations and Changes

The Department of Motor Vehicles understands the need for timely account disablement for separating employees and has made significant progress on the technical controls impacting this process. DMV will continue to evaluate process improvements in other areas to ensure the objectives of the security standards are met.

The corrective actions are completed or are under way and 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', with a large, stylized flourish extending to the right.

Richard D. Holcomb

RDH:dm

SECRETARY OF TRANSPORTATION OFFICIALS

As of June 30, 2019

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 Policies over Service Concession Arrangements	Transportation	Resolved	2017
Continue to Strengthen Internal Controls over the Employee Separation Process	Transportation	Resolved	2017
Identify and Evaluate Changes to Previously Identified Component Units for Financial Reporting	Transportation	Resolved	2018
Improve Financial Reporting of Infrastructure Assets with Proactive Policies and Procedures	Transportation	Resolved	2018
Evaluate Invoices for Goods or Services Provided Across Multiple Fiscal Years	Transportation	Resolved	2018
Enhance Review of Accounts Receivable for Financial Reporting	Transportation	Resolved	2018
Improve Financial Reporting of Infrastructure Assets	Transportation	New	2019
Improve Financial Reporting Classification within Net Position	Transportation	New	2019
Ensure Performance Evaluations are Completed for Professional Service Contracts	Transportation	New	2019
Improve Controls for Ensuring Quality Improvement Recommendations are Implemented	Transportation	New	2019
Improve Database Security	Transportation	New	2019
Improve Information Technology Change Management Program	Motor Vehicles	Resolved	2017
Continue Improving Controls for Processing Access Terminations and Changes	Motor Vehicles	Corrective Action Ongoing**	2018
Improve Training on and Monitoring of the Employment Eligibility Process	Motor Vehicles	Deferred*	2018
Implement Separation of Duties over Accounts Receivable Resulting from Dealership Transactions	Motor Vehicles	New	2019
Practice Oversight of Service Providers Throughout the Lifecycle of a Project	Motor Vehicles	New	2019

FINDINGS SUMMARY (cont.)

Finding	Agency	Follow-Up Status	Year First Issued
Improve Internal Controls for Reviewing Exceptions in the Commonwealth's Retirement System	Motor Vehicles	New	2019
Implement Internal Controls to Terminate Benefits for Employees Convicted of a Felony	Motor Vehicles	New	2019

*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.

**Further details on the status of prior year findings identified as "Corrective Action Ongoing" can be found in section titled "Status of Prior Year Findings and Recommendations."