DEPARTMENT OF TRANSPORTATION

RICHMOND, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2001

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Department of Transportation for the year ended June 30, 2001, found:

- Internal control matters that we consider to be reportable conditions; however, we do not consider any of these matters to be a material weakness;

- Issues of noncompliance with applicable laws and regulations tested; and

- Inadequate corrective action on prior year audit findings.

We found that Transportation does not have detailed written policies and procedures for financial statement preparation. We originally reported on the lack of policies and procedures in our fiscal year 1999 report. In that report, we urged management to ensure the completion of written policies and procedures for all financial functions. Transportation has made progress in documentation of year-end system closing procedures, however, they have not documented and implemented written policies for all financial functions.

We also found that Transportation does not properly track and record operating leases. Various individuals are responsible for different types of operating leases. Transportation does not have a process to ensure that they compile and record all of the operating lease information in the Commonwealth's Lease Accounting System (LAS) or on Transportation's financial statements. State policies and procedures require that agencies submit all lease transactions to the Department of Accounts for inclusion in LAS.

Transportation does not have a complete disaster recovery plan, adequate security safeguard policies and procedures, or an adequate security awareness and training program. Transportation has not updated its disaster recovery plan since 1995. Transportation does not have a written policy for maintenance of user access to all applications and systems. Transportation does not adequately inform security officers and coordinators of their roles and responsibilities.

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AGENCY HIGHLIGHTS

The Virginia Department of Transportation builds, maintains, and operates the state's roads, bridges, and tunnels. Virginia has the third largest state-maintained highway system in the United States, just behind Texas and North Carolina. Transportation maintains over 56,000 miles of interstate, primary, and secondary roads and distributes state funds to help maintain over 10,000 miles of urban streets. Transportation not only maintains roads but also maintains more than 11,700 bridges, four underwater tunnels, two mountain tunnels, two toll roads, one toll bridge, four ferry services, 41 rest areas, and 107 commuter parking lots. VDOT has an estimated 10,000 employees, making it one of the three largest state agencies in the Commonwealth.

Transportation faced several new challenges during fiscal year 2001. Transportation received a substantial funding increase for the fiscal year as a result of both federal and state legislation. For the first time, the General Assembly developed a list of "priority" projects and designated where Transportation will spend the additional funding. The General Assembly included these priority projects in legislation passed during fiscal year 2000, known as the Virginia Transportation Act of 2000 (VTA). The legislation provided Transportation with General Fund monies for the first time, created the Priority Transportation Fund, and provided for the issuance of up to $800 million in Federal Highway Reimbursement Anticipation Notes at any one time. In addition, the Governor-appointed 21-member Commission on Transportation Policy completed their evaluation of the policies and procedures that govern transportation in Virginia and provided their final report and recommendations.

Virginia Transportation Act 2000

New Funding Sources

The Virginia Transportation Act of 2000 (VTA) provided Transportation with General Fund appropriations for the first time. The legislation restricted the funds use for only "priority transportation projects." In fiscal year 2001, Transportation received approximately $236 million in General Fund monies for VTA projects. Of this amount, Transportation spent $166 million on road construction projects and reverted $70 million in unspent funds at year-end to the General Fund of the Commonwealth.

Transportation issued $375 million in Federal Highway Reimbursement Anticipation Notes (FRANs) on November 1, 2000. The FRANs are a type of Grant Anticipation Revenue Vehicle (GARVEE), a debt-financing instrument that permits issuers (states) to pledge future federal highway funds to repay investors. VTA authorized the issuance of these notes, limiting the amount outstanding at any one time to $800 million and specifying eligible projects. Transportation issued the notes at a premium, receiving proceeds of $386 million for fiscal year 2001. As of June 30, 2001, Transportation had spent $86 million on construction projects. At year-end $309 million remained in the fund, after interest accruals and debt service transfers.

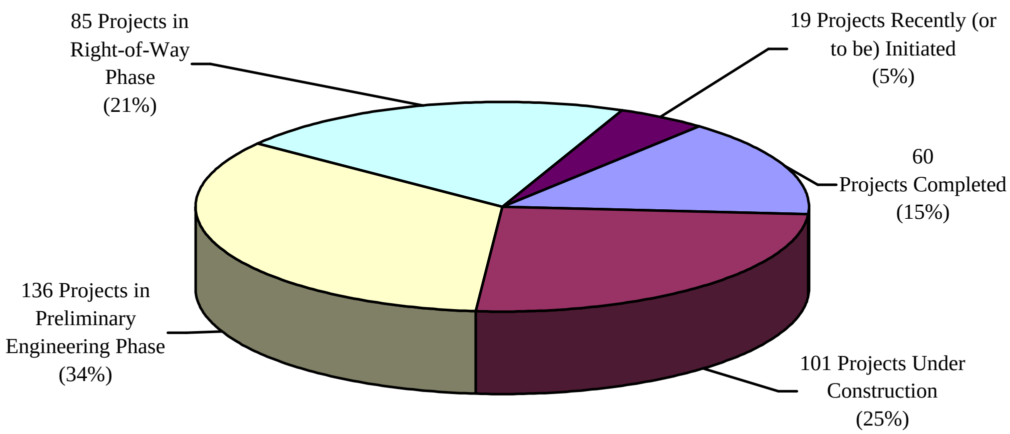
VTA also created the Priority Transportation Fund (PTF), a special non-reverting fund that is a component of the Transportation Trust Fund. Transportation may only use these funds to finance the priority transportation projects designated in the legislation. The PTF receives funding from two primary sources. It receives a portion of the fuels tax (per the Virginia Fuels Tax Act) collected by the Department of Motor Vehicles. In addition, the VTA requires the Commonwealth Transportation Board to transfer any excess revenues over official estimates in the Highway Maintenance and Operating Fund and the Transportation Trust Fund (TTF), excluding any amounts allocated to the Commonwealth Port and Airport Funds, to the Priority Transportation Fund. During fiscal year 2001, the PTF received $35 million in tax revenue and net transfers in of $99 million. As of September 30, 2001, VDOT has not expended any of the funds. The only transactions recorded in the PTF are the fund's allotment of the tax revenues, securities lending, and excess revenue and Appropriation Act transfers.

Although they have identified $31.6 million in excess revenues over the official estimate at June 30, 2001, Transportation has not transferred the funds to the PTF. Transportation chose not to spend the PTF funds, as they are trying to spend the FRAN funds before they become subject to arbitrage, and the legislation does not specify when the transfer is to occur. Due to their cash flow issues, discussed below, Transportation has left the funds in the Construction and Highway Maintenance and Operating Funds so that they can use the available cash on projects currently ongoing. Transportation plans to transfer the funds prior to the 2002 fiscal year-end. Transportation has recorded the interfund receivable and payable in the applicable funds on their balance sheet for fiscal year 2001.

Unspent Funds

The VTA designates which projects receive General Funds, FRAN funds, and PTF monies. Because these priority projects are restricted by legislation, Transportation is in the unique position of having cash it cannot spend in these funds, while experiencing cash shortfalls in their Highway Construction and Highway Maintenance and Operating Funds. As shown in the chart below, many of the projects identified by the VTA are still in the Preliminary Engineering or Right of Way Phases, which precede the Construction Phase where the bulk of expenditures occur. During the fiscal year, Transportation's first priority was to spend its General Fund appropriation to prevent reversion to the Commonwealth at year-end.

Status of Highway Projects in 2000-2001 Plan



(Source: 11/15/2001 Status Report on VTA Projects obtained from www.virginiadot.org)

Because Transportation could not spend the General Funds on the designated projects before year-end, the Commonwealth Transportation Board, in compliance with the legislation, authorized Transportation to re-allocate certain funds from designated VTA projects to other projects within the same construction districts. This allowed Transportation to spend an additional $43.9 million on road construction during the fiscal year. At fiscal year-end, Transportation reverted the remaining General Fund appropriation of $70 million to the General Fund of the Commonwealth.

Transportation has also not been able to spend its FRAN proceeds. The Department issued $375 million in notes during the fiscal year, but was only able to expend $85.6 million on construction projects due to the legislative limitations discussed above and the fact that many of the priority projects are in the planning phase and therefore have limited expenditures. Transportation is attempting to spend down these funds before they fall under federal Internal Revenue Code arbitrage regulations. Transportation will not begin to use the funds in the Priority Transportation Fund for road construction until they have been able to spend the FRAN proceeds.

Cash Shortage

Transportation began experiencing cash flow issues, specifically in the Highway Maintenance and Operating Fund, in the first half of fiscal year 2002. One cause for this reduction in cash was due to a change in legislation over the timing of gas tax revenue collections, which funds maintenance and construction expenditures. This change resulted in a 15-day delay in collecting taxes, but will not result in a reduction in total collections over time.

As a result of the cash flow issues, Transportation ended fiscal year 2001 with an insufficient cash balance in the Highway Maintenance and Operating Fund, when combined with weaker than estimated revenue collections and higher expenses, to operate during the months of July and August 2002. Consequently, Transportation had to borrow cash from other Transportation funds, including the Construction and Priority Transportation Funds. Transportation has since repaid the loan from the Priority Transportation Fund and is borrowing only from the Construction Fund to support the Highway Maintenance and Operating Fund. Transportation plans to repay these loans, including interest, before the end of fiscal year 2002.

Commission on Transportation Policy

In May 1999, Governor Gilmore appointed a 21-member Commission to evaluate transportation policies and procedures and to seek new and innovative ways to plan, design, fund, and build transportation infrastructure. To that end, the Governor asked the Commission to:

- Examine historical trends and policy decisions to ensure that past mistakes are recognized and understood.
- Examine the process for developing project cost estimates to ensure greater accuracy of estimated cost at the outset.
- Develop recommendations to relieve congestion and improve efficiency on existing facilities.
- Develop policies and proposals that ensure prompt delivery of engineering and construction.
- Develop a long-term strategy to ensure that resources focus on high-priority infrastructure needs.
- Examine Virginia Department of Transportation operations and recommend improvements.

The Commission presented its final report on December 15, 2000. The final report focused on criteria for transportation projects, maintaining roads and highways, and a management assessment of Transportation. The report identified 119 issues and listed 105 recommendations to address those issues. In response to the report, the Transportation Executive Team and senior staff have reviewed each recommendation, assessed how each can be used to positively impact the way Transportation does business, and have developed draft work plans to accomplish objectives.

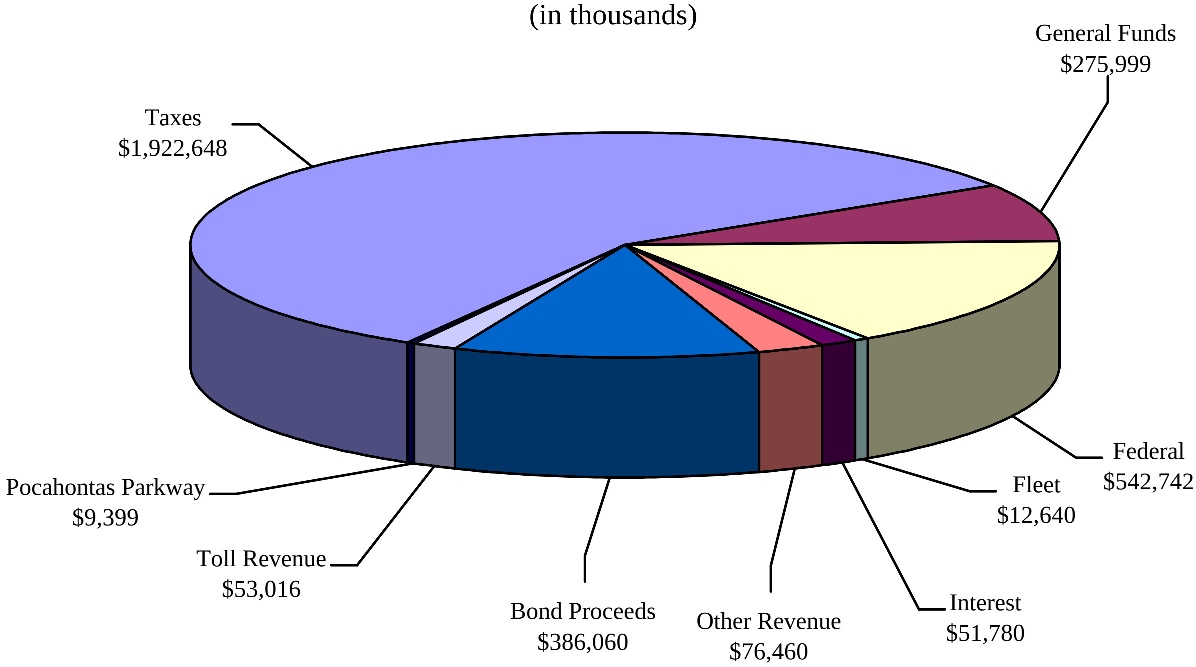
As of May 1, 2001, Transportation had fully or near fully implemented twenty-four recommendations and had made progress towards implementing an additional twenty-six recommendations. Transportation has also taken additional actions to improve business practices, which include the enactment of ten administration bills, the formation of a task group to address issues relating to decentralization and restructuring, and the establishment of a Procurement Review Section in the Administrative Services Division. The Procurement

Review Section will review non-construction procurement statewide. Transportation anticipates implementing a number of the recommendations throughout 2001 and beyond.

Financial Information

Transportation's main source of funding is its allocation from the Transportation Trust Fund. Revenues collected by the Departments of Motor Vehicles and Taxation from taxes, licenses, and vehicle registrations fund the Transportation Trust Fund. Transportation receives 78.7 percent of Trust Fund revenues collected, which is further allocated within Transportation to the paving of non-surface treated secondary roads and constructing, reconstructing, maintaining, and improving the primary, secondary, and urban road systems. The remaining 21.3 percent of Transportation Trust Fund revenue goes to the Mass Transit, Port, and Airport Funds. New revenue sources created by the VTA are General Fund appropriations and bond sales based on expected federal revenue. Transportation's funding sources, including its Transportation Trust Fund allocation, are illustrated below:

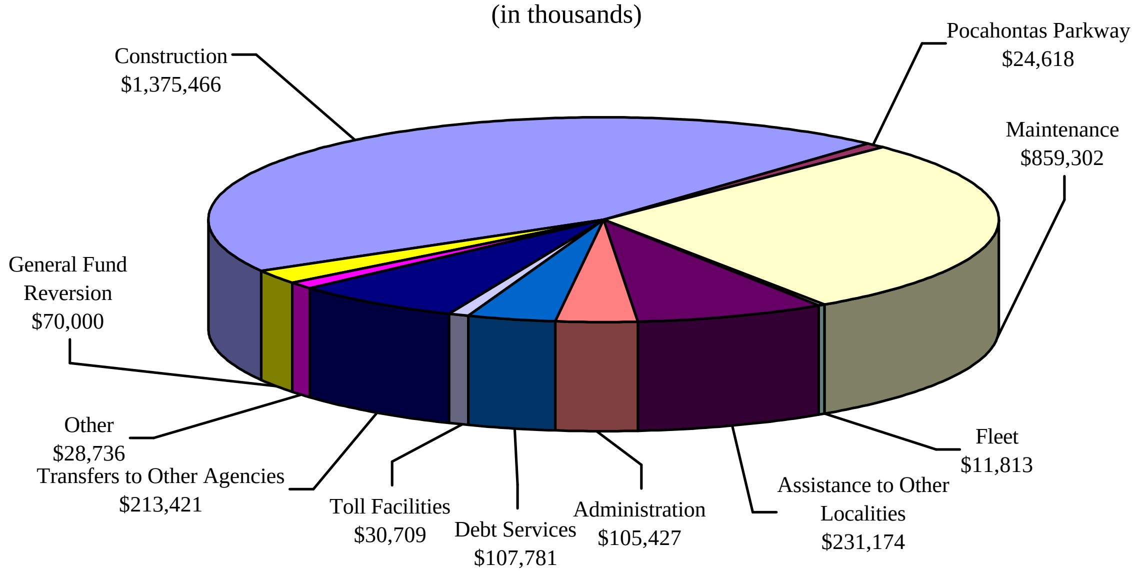
Sources of Revenue - Fiscal Year 2001
(in thousands)



(Source: GAAP basis statement of revenues and expenditures for Special Revenue, Internal Service, and Debt Service. Pocahontas Parkway revenues were obtained from the component unit's financial statements that were audited by other auditors.)

Transportation expended nearly $2.8 billion in fiscal year 2001 and transferred out an additional $283 million. Of the total expended and transferred out, 81 percent went towards construction, maintenance, and assistance to localities, ten percent was transferred out, and the remaining nine percent was expended for administration, toll facilities, debt service, and other expenses as illustrated in the following chart:

Uses of Funds - Fiscal Year 2001
(in thousands)



(Source: GAAP basis statement of revenues and expenditures for Special Revenue, Internal Service, and Debt Service. Pocahontas Parkway revenues were obtained from the component unit's financial statements that were audited by other auditors.)

FINDINGS AND RECOMMENDATIONS

GASB Statement No. 34

In June of 1999, the Governmental Accounting Standards Board released Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. GASB Statement No. 34 dramatically changes how governmental entities present and report financial information. The most dramatic change is the capitalization of infrastructure assets. Infrastructure assets are long-lived capital assets that include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. GASB Statement No. 34 requires presentation of these assets for the first time in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth beginning in fiscal year 2002.

Transportation and the Commonwealth have chosen to use the depreciation method for presenting infrastructure assets versus the modified approach. In doing so, Transportation had the task of gathering all of the information necessary to properly record and report infrastructure assets. Transportation determined what assets should be included in infrastructure, ownership of those assets, the dollar value of infrastructure assets to be capitalized, the type of depreciation method to be used, and has drafted a capitalization policy for future maintenance/improvement expenses.

In preparation for implementation, Transportation completed the restatement of its fiscal year 2001 financial statements into GASB Statement No. 34 format on December 6, 2001. We are currently reviewing those statements. It is important that the fiscal year 2001 financial statements are accurately prepared, as these amounts provide the basis for the beginning balances for the fiscal year 2002 financial statements.

Transportation has made significant progress towards meeting the requirements established by GASB Statement No. 34, and these efforts should continue. Proper presentation of the Commonwealth's financial statements is crucial to the state's ability to issue debt and maintain bond ratings. Transportation comprises a significant portion of several financial statement balances presented in the CAFR; therefore, they play a vital role by properly presenting year-end financial balances, particularly infrastructure.

Financial Statement Preparation

Transportation accumulates financial information on its Financial Management System (FMSII) a PeopleSoft based accounting system. Transportation produces financial statements on-line using PeopleSoft nVision, a flexible Microsoft Excel spreadsheet-based financial reporting tool that works within PeopleSoft applications. nVision provides a seamless link between the general ledger and the MS Excel-based financial statements.

Transportation uses three ledgers to produce final financial data. Transportation records its daily business transactions in one ledger. This ledger contains all detail transactions and is reconciled to the Commonwealth Accounting and Reporting System (CARS). Transportation records cash basis adjustments in a second ledger and produces cash basis financial statements using nVision by combining the data in these two ledgers. Transportation records accrual adjustments in a third ledger, and then combines the three ledgers to create the accrual basis financial statements.

Develop Written Financial Statement Preparation Procedures to Increase the Efficiency and Reliability of Transportation's Financial Statements

Transportation has written detailed year-end closing procedures for its financial system, but does not have detailed written policies and procedures specifically for year-end financial statement preparation. We originally reported on the lack of policies and procedures in our fiscal year 1999 report. In that report we urged management to ensure the completion of written policies and procedures for all financial functions. While we recognize Transportation for their progress in documenting system procedures, written documentation should exist for all financial procedures.

Transportation devotes significant time and resources each year to produce financial statements in order to comply with bond indenture agreements. However, our audits continue to find material errors in the preparation and presentation of information. In addition, Transportation struggles to meet state financial reporting deadlines each year, often having to request extensions Transportation has cited a lack of adequate staffing as contributing significantly to this issue. These errors and delays highlight the need for Transportation to develop detailed financial statement preparation and review procedures, as well as the need for them to analyze the Fiscal Division's workload and the adequacy of the staff to perform it. Detailed procedures would enable Transportation to systematically and efficiently report year-end financial balances.

State policies and procedures require agencies to establish and maintain sound internal controls. Agencies must develop a formal program to evaluate the operating environment and ensure maintenance of adequate internal controls over financial assets. These controls include written policies and procedures to adequately safeguard the assets of the agency and reasonably assure the proper recording of the agency's financial transactions. Internal control is defined as the:

> *"Process effected by management and other personnel designed to provide reasonable assurance that objectives are being achieved in the following three areas:*
>
> - *Effectiveness and efficiency of operations,*
> - *Reliability of financial reporting, and*
> - *Compliance with applicable laws and regulations."*
>
> *Source: Commonwealth Accounting Policies and Procedures Manual*

Transportation's lack of specific written financial statement procedures has resulted in an inefficient financial statement preparation process and at times inaccurate financial reporting. Without proper guidance, the possibility for the occurrence of material errors and omissions increases. Each year, financial personnel must perform certain routine procedures, such as reversing entries, accruals, and footnote schedules. Due to the lack of a well-documented process, Transportation spends an excessive amount of time compiling statements, and subsequently correcting errors and omissions. While Transportation has documented generalized procedures, Transportation should systematically document all recurring financial statement procedures. Transportation should continue to prioritize these procedures by due dates and assign tasks to the appropriate individual. One individual should continue to be responsible for reviewing the items as they are completed and ensuring all items are completed by the applicable due date.

During fiscal year 2002, Transportation must prepare to implement the new governmental financial reporting model, Governmental Accounting Standards Board Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This model dramatically changes the way governmental entities present and report their financial information. Because Transportation's financial information comprises a significant portion of amounts reported in the Commonwealth's Annual Financial Report, it is important that Transportation's reported financial balances be accurate.

Transportation has the opportunity, while it is preparing for the new reporting model, to document at each phase in the transition process the necessary procedures to produce accurate, timely financial statements. It is more important now than ever for Transportation to complete and document these procedures to ensure a smooth transition and realize future preparation efficiency.

Based on our fiscal year 1999 recommendations, Transportation documented their process to produce financial statements from FMSII. In addition, they developed a work list, including responsible personnel and due dates, for generalized financial statement tasks. Transportation should use these documents as a starting point for developing a more detailed, precise list of items and procedures that financial personnel must complete to produce year-end financial data. The documentation should be sufficiently detailed that, in the case of absence or turnover, another individual could prepare financial statements using the written procedures. Transportation should incorporate these documents into their policies and procedures and these should become the basis for financial statement preparation each year.

Since the implementation of a new financial system in fiscal year 1999, Transportation has focused on resolving system-related issues and refining the system, not on routine financial statement procedures. Now that Transportation has developed system procedures, they should refine and document their complete financial statement preparation procedures.

Lease Management

Transportation has commitments under various operating leases for land, floor space, and equipment. These leases have terms of generally three to four years with renewal options for additional time. Transportation expects that upon expiration it will replace the existing leases. Transportation's fiscal year 2001 rental expense was approximately $10 million. Almost 80 percent, or $7.9 million, of lease payments went for one lease for Seat Management of computer equipment and services.

Properly Track and Record Operating Leases

Transportation does not properly track and record operating leases. Various individuals have responsibility for different types of operating leases. Transportation does not have a process to ensure that they compile and record all of the operating lease information in the Commonwealth's Lease Accounting

System (LAS) or on Transportation's financial statements. Transportation did not use LAS to prepare its financial statements because LAS did not include all information on computer leases through the Seat Management program for fiscal year 2001.

In addition, Transportation's operating footnote did not include future rental payments for copiers, because the financial statement preparers did not know of these leases even though LAS included the lease information. As a result, Transportation did not have approximately $7.9 million in LAS and the footnote understated the liability by approximately $1.2 million.

State policies and procedures require that agencies submit all lease transactions to the Department of Accounts for inclusion in LAS. LAS allows the Commonwealth to accumulate and record all leased assets and related liabilities. This system allows the Commonwealth to prepare financial statements and the related disclosures in accordance with generally accepted accounting principles (GAAP). LAS provides the necessary reports for all financial reporting and disclosure requirements promulgated by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB).

Management should implement internal control procedures to ensure that personnel properly include all lease obligations in LAS. These controls should include a centralized individual as the agency's LAS representative with responsibility for tracking all lease information. This would ensure that Transportation properly tracks and accounts for all lease payment obligations and outstanding lease related liabilities in LAS and includes them in Transportation's financial statements.

Information Systems

Transportation uses twenty-one system applications to process and maintain its data. Divisions other than the Information Technology Division (ITD) developed most of these systems in-house. Additionally, in the past division managers have authorized system development projects instead of the Chief Information Officer (CIO). As a result, ITD has experienced difficulty performing systems inventory and ensuring that it's complete. In addition, this large amount of system applications makes the interfacing process complex.

Five of these systems contain data that could significantly impact Transportation and the Commonwealth's financial statements.

Application Name	Purpose	# Users
Financial Management System	Central accounting system	5,000
Equipment Management System	Tracks rental and non-rental equipment, and fleet data	2,055
Inventory Management System	Tracks inventory and sign shop data	2,100
TRNS-PORT	Tracks construction contracting data	1,000
Highway, Traffic, and Road Information System	Tracks infrastructure data	1,200

Transportation has an agency security officer, application security officers and several information system coordinators that are responsible for safeguarding these systems. There is one application security officer for each of the applications listed above. These individuals grant user requests by establishing user log-ons with specified privileges. Information system coordinators are the link between application security officers and system users. The coordinators are management-level personnel within each central office division and each district office that are responsible for authorizing user requests.

The agency uses one document to add, remove, or change user access to each application (except for the Financial Management System). Coordinators complete this document for new employees and forward it to ITD. ITD provides access to Transportation's networks, then the application security officer grants access to the application. Coordinators are also responsible for informing the application security officer and ITD of situations when a user no longer needs access or needs their access modified.

Transportation is a decentralized organization with over 10,000 employees statewide. System security is crucial in an organization of this size, which maintains such a large number of system users and experiences significant turnover.

Comply with the Commonwealth of Virginia's (COV) Information Technology Resource Management (ITRM) Standards Section 2000.01-1

Transportation does not have a complete disaster recovery plan, adequate security safeguard policies and procedures, or an adequate security awareness and training program as required by COV ITRM Section 2000.01-1.

- **Disaster Recovery**
  Transportation has not updated its disaster recovery plan since 1995, except for Y2K considerations. Since that time, Transportation has incorporated new Windows NT platforms, new Unix servers, and other technologies. Although agency personnel explained that they have updated applicable portions of the plan for changes since 1995, they could not produce evidence to support this statement. In September of 2001, Transportation contacted its disaster recovery vendor, Comdisco, to begin this process. We encourage Transportation to complete its current efforts to update the plan and develop a process, which at least annually amends the plan as Transportation adopts new technologies.

  In addition, Transportation has no means of communicating with the Department of Information Technology's (DIT) disaster recovery vendor. DIT provides mainframe services for Transportation. If DIT has a disaster, Transportation currently has no way to obtain access to its data. We, therefore, recommend that Transportation establish switchable lines to enable access to DIT's disaster recovery vendor.

- **Security Safeguard Policies and Procedures**
  Transportation does not have a written policy for maintenance of user access to all applications and systems. The application security officers are not properly monitoring and maintaining user access for changes relating to job responsibilities and terminations. Transportation has an informal policy that relies on the information technology coordinators to inform the application security officers of the need to remove or change an individual's access. However, it is apparent the coordinators may not be aware of <u>all</u> of these instances as shown below.

  - We reviewed two months of terminated employees and found 28 terminated individuals with access to the Inventory Management System and Equipment Management System.

  - We identified nine contractors that no longer work at Transportation, with access to the Inventory Management System dating back to 1995.

  - We also identified 175 inactive accounts on the TRNS-PORT system.

Although the individuals identified cannot access these applications without access to Transportation's network, the excessiveness of the number of inactive accounts demonstrates Transportation's lack of user access maintenance and makes the maintenance process more difficult to manage.

- **Security Awareness and Training Program**
  Transportation does not adequately inform security officers and coordinators of their roles and responsibilities. We found instances where security officers did not perform any duties other than simply grant or terminate access. Some were unable to provide a user list that identified the users of their respective applications along with their security levels. This is a fundamental document that the security officer should be using to perform user maintenance for their respective application. We found instances where coordinators did not inform the security officers of user movement within the agency, thus changing their access requirements.

Not adequately implementing and maintaining an information technology security plan increases the risk of unauthorized access to mission critical data. It also reduces Transportation's ability to continue critical business functions in the event of disruptions or minimize the effect of such disruptions.

Transportation should update its disaster recovery plan immediately and establish switchable lines to enable access to DIT's disaster recovery vendor. Transportation should develop written policies and procedures for monitoring and maintaining user access. Transportation should implement regular security awareness and training programs to ensure that responsible individuals are aware of their security responsibilities and know how to fulfill them.

<u>System Upgrades</u>

Transportation implemented their financial management system, FMSII, in September 1998. The FMSII system is a client/server-based system consisting of a PeopleSoft front-end application and an Oracle Database. Due to the length of time it took to develop and implement FMSII and the lack of resources in the Fiscal Division, Transportation encountered problems staying current with PeopleSoft software versions since implementation and continues to experience difficulties.

<u>*Develop a Long-Term Plan to Address Version Upgrades for FMSII*</u>

Transportation needs to develop a long-term plan to address how they are going to deal with continuous version upgrades for PeopleSoft and Oracle. Last year we reported that Transportation had lost vendor support for the version of PeopleSoft on which FMSII is running and was about to lose vendor support for its version of the Oracle database.

To address the need to upgrade PeopleSoft, Transportation requested recommendations from Accenture (formerly Anderson Consulting), PeopleSoft upgrade lab, and Transportation's ITD. Accenture performed an upgrade analysis, estimating that the upgrade process will take approximately 52,000 to 80,000 hours to complete. To perform this upgrade, Transportation has the option of performing the work itself, contracting with a consultant, or a mixture of the two options. Transportation did not receive a recommendation from the PeopleSoft upgrade lab. However, ITD determined that FMSII's current version of PeopleSoft is compatible with the new Oracle version that Transportation has implemented throughout the department. In addition, the cost to upgrade to a new version of PeopleSoft could potentially be almost as much as the original cost of the system ($26 million). As a result of the high cost and the compatibility of the software, Transportation has decided <u>not</u> to upgrade PeopleSoft at this time.

This management decision is only a short-term solution for a long-term problem. In the future, both Oracle and PeopleSoft will continue to release upgrades to improve the software and fix existing problems. To continue to advance technologically, such as making the system web-based, Transportation will need a plan as to whether they will upgrade their versions of Oracle and PeopleSoft, implement a new system, or continue with the Synergy initiative and get rid of FMSII. Currently, Transportation is waiting to see the outcome of the Synergy initiative discussed below.

System Initiative

Transportation's CIO is proposing a Synergy Initiative. Synergy is an enterprise system that integrates core business functions into one platform. To plan for Synergy, Transportation has established six task forces to develop demonstration scripts and strategic direction for this project. The task forces are as follows:

- Training
- Technical
- Construction
- Maintenance
- Human Resources
- Financial

Transportation's CIO estimates that the Synergy Initiative will cost $40-60 million for the software and implementation and involve a three to five year phase-oriented implementation process. Continuation of this proposal will require approval by the Transportation Executive Management Team and the Department of Technology Planning.

OTHER DEPARTMENT ISSUES AND INFORMATION

Highway Construction

During fiscal 2001, Transportation spent over $1.3 billion on highway construction projects, including $747 million in federal expenditures. There are three major phases in the life cycle of a construction project: Preliminary Engineering (design phase), Right of Way (acquiring/relocating property and utilities), and Construction (building). Approved construction projects and funding sources are included in the Virginia Transportation Development Plan (Plan).

The Commonwealth Transportation Board (Board) must approve all construction projects before any activity may occur. The contract for each of the phases of a project must receive the Board's approval. Once the Board approves a construction project contract, Transportation's Chief Engineer executes the contract and then assigns the project to the District Administrator of the district in which the project is located. The District Administrator assigns a Resident Engineer from the residency in which the project is located to monitor the project and the contract used to carryout the project. The Resident Engineer uses Project Managers and Inspectors to help monitor.

Transportation has several major construction projects, including the Springfield Interchange, the Pocahontas Parkway, the Coalfields Expressway, and the Woodrow Wilson Bridge Project.

Springfield Interchange

The Springfield Interchange project is the highest dollar, non-bridge or tunnel project Transportation has ever undertaken. Transportation anticipates that the project will last up to eight years, affecting thousands of commuters. Transportation identified the Springfield Interchange as one of the busiest interchanges in the country and the most dangerous spot on the Capital Beltway. Because of this, Transportation embarked on a massive construction project to make the interchange safer, less congested, and more manageable. The new interchange will separate local traffic, making it easier for commuters to get to work and for travelers to pass through the area.

During calendar year 2001, Transportation revised the project's estimated costs, and as of November 14, 2001, the estimated cost is $589.5 million. This is a $22.1 million increase over the estimated cost reported in November 2000. Total estimated cost is comprised of the following:

Project Phase	**Estimated Cost**
Preliminary Engineering	$ 44,992,000
Real Estate (Right of Way)	56,800,000
Spring Mall Drive Ramps	2,040,000
Beltway Ramps (future project)	891,000
Phase 1	2,778,000
Phases 2 and 3	123,000,000
Phase 4	146,320,000
Phase 5	65,616,000
Phases 6 and 7	113,127,000
Congestion Management Programs	28,000,000
Springfield Interchange Information Center	6,000,000
Total:	$ 589,564,000

(*Source: Springfield Interchange Project Fact Sheet obtained from www.springfieldinterchange.com*)

Pocahontas Parkway (Route 895)

The Route 895 connector is a project under the Public Private Transportation Act (PPTA), which allows the Commonwealth and local governments to enter into agreements authorizing private entities to acquire, construct, improve, maintain, or operate qualifying transportation facilities. Transportation entered into a comprehensive agreement with FD/MK Limited Liability Company for the private development of the Route 895 connector. The PPTA provides FD/MK the ability to issue tax-exempt bonds to finance the project. FD/MK created the Pocahontas Parkway Association to assist with the financing of the project.

The Route 895 connector will be a nine-mile, four lane limited access toll road extending from the current eastern terminus of Chippenham Parkway at Interstate 95 to a connection with Interstate 295, southwest of Richmond International Airport. Construction began in late fall 1998 and should be completed in fall 2002.

Coalfields Expressway

In November 1995, Congress enacted the National Highway System Designation Act of 1995, which extended the Coalfields Expressway from the West Virginia State line into Virginia. The proposed roadway is defined in the legislation as going to Pound, Virginia, and generally following State Route 83 through

Buchanan, Dickenson, and Wise counties. The new legislation identified the Coalfields Expressway as a "Congressional High Priority Corridor" and included it as part of the National Highway System (NHS).

The 2000 Session of the General Assembly created the Virginia Coalfields Coalition Authority with powers solely to provide for the construction of the Coalfields Expressway highway system. No other agency, authority, board, state, or local entity may provide for the construction of the program. The Board will have eleven appointed members and the chairman shall sign and execute all vouchers for the disbursements of funds belonging to the Authority upon authorization by the Board. The Board may employ or retain such employees, agents, financial advisors, and attorneys as it may deem necessary and fix their compensation.

In August 2001, Transportation's Commissioner awarded the majority of this project under the Public Private Transportation Act.

Woodrow Wilson Bridge Project

Transportation has identified the Woodrow Wilson Bridge as one of the worst bottlenecks in the country. The project will build two new six-lane bridges to replace the existing six-lane bridge and will take an estimated ten years to complete. As of August 24, 2001, the entire project had an estimated cost of $2.44 billion as shown below. Virginia and Maryland will each provide state funding and the federal government will provide $1.6 billion in federal highway funds. The District of Columbia will also fund a small portion of the project.

Project Portion	**Estimated Cost**
Funded by Virginia:	
Telegraph Rd-VA 241 Interchange	$ 272,450,000
US Route 1 Interchange	745,990,000
Other Costs	43,500,000
Total for Virginia	1,061,940,000
Funded by Maryland:	
Potomac River Crossing	819,438,500
Anacostia Freeway I-295 Interchange	342,240,000
Indian Head Highway-MD 210 Interchange	171,280,000
Other Costs	32,900,000
Total for Maryland	1,365,858,500
Funded by Washington D.C.:	
District of Columbia I-295	15,100,000
Total for Washington D.C.	15,100,000
Total for Project	$2,442,898,500

(Source: Financial Plan obtained from www.wilsonbridge.com)

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

December 7, 2001

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

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the financial statements of the **Department of Transportation** as of and for the year ended June 30, 2001, and have issued our report thereon dated December 7, 2001. Our report on the financial statements is included in the Financial Report issued by the Department of Transportation. We submit herewith our report on compliance and internal control over financial reporting.

We conducted our 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. We did not audit the financial statements of the Pocahontas Parkway Association, a blended component unit. The Association's financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the Association's financial statements, is based solely upon the report of the other auditors.

Compliance

As part of obtaining reasonable assurance about whether Transportation's statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. Instances of noncompliance, entitled "Properly Track and Record Operating Leases" and "Comply with the Commonwealth of Virginia's (COV) Information Technology Resource Management (ITRM) Standards Section 2000.01-1" are described in the section titled "Findings and Recommendations."

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Transportation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Transportation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions, "Develop Written Financial Statement Preparation Procedures to Increase the Efficiency and Reliability of Transportation's Financial Statements," "Properly Track and Record Operating Leases," "Comply with the Commonwealth of Virginia's (COV) Information Technology Resource Management (ITRM) Standards Section 2000.01-1," and "Develop a Long-Term Plan to Address Version Upgrades for FMSII" are described in the section titled "Findings and Recommendations."

We believe that the reportable conditions described above are not material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Status of Prior Findings

Transportation has not taken adequate corrective action with respect to the previously reported finding entitled "Maintain Support for Mission Critical Systems." Accordingly, we included this issue in the finding entitled "Develop a Long-Term Plan to Address Version Upgrades for FMSII" in the section entitled "Findings and Recommendations." Transportation has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Report Distribution and Exit Conference

The Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting is intended solely for the information and use of the Governor and General Assembly of Virginia, the Transportation Board and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on January 22, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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DEPARTMENT OF TRANSPORTATION

Richmond, Virginia

As of June 30, 2001

Shirley J. Ybarra, Secretary of Transportation

Charles D. Nottingham, Commissioner

Thomas F. Boyd, Assistant Commissioner of Finance

Stacy D. McCracken, Controller

COMMONWEALTH TRANSPORTATION BOARD

Shirley J. Ybarra, Chairman

Charles D. Nottingham, Vice Chairman

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Olivia A. ‘Libby’ Welsh

Ulysses X. White