

**AGENCIES OF THE SECRETARY
OF
TRANSPORTATION**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2012**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

This report discusses the financing and operations of the **Agencies of the Secretary of Transportation**, with the exception of the Virginia Port Authority. Beginning with fiscal year 2012, the Virginia Port Authority is audited by a separate CPA firm. As a result, information concerning its operations and financial performance is not included in this report. However, the results of the Virginia Port Authority's Comprehensive Annual Financial Report audit can be found on our website, www.apa.virginia.gov

Together, the agencies within the secretariat provide services supporting land, air, and water transportation in the Commonwealth. Their responsibilities include collecting revenues from taxes, licenses, and registrations to fund operations; developing and maintaining highways, seaports, and airports; and assisting in the development of private and local rail, public transportation, highways, airports, and seaports.

Our audit's primary objective for the remaining agencies within the secretariat was to evaluate the accuracy of the agencies' financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2012, and test compliance for the Statewide Single Audit. Our audit for the year ended June 30, 2012, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and in each agency's accounting records;
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported. These matters are included in the section entitled "Audit Findings and Recommendations;"
- certain matters involving internal controls requiring management's attention and corrective action. These matters are also included in the section entitled "Audit Findings and Recommendations;"
- significant progress on corrective action in response to our prior audit finding for the Department of Motor Vehicles entitled "Improve Controls over Small Purchase Charge Cards," by developing and beginning to implement improved policies and procedures during the Fall 2012; and,
- adequate corrective action with respect to prior year audit findings not repeated in this report.

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AUDIT FINDINGS AND RECOMMENDATIONS

DEPARTMENT OF MOTOR VEHICLES

Improve Database Security

The Department of Motor Vehicles (Motor Vehicles) is actively working towards mitigating the database security control weaknesses we found during our previous year's audit. While Motor Vehicles addressed all issues in its corrective action plan, we found that Motor Vehicles did not implement proper controls while addressing Database Administrator activity logs.

We have communicated the details of this issue to management in a separate document marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the Code of Virginia, due to their sensitivity and description of security controls.

We recommend that Motor Vehicles review its activity logging controls and change the appropriate configurations to ensure the activity log's confidentiality, integrity, and availability. While implementing these controls, Motor Vehicles should reference the Center for Internet Security Oracle best practices and the Commonwealth's Information Security Standard, SEC501-07, to ensure compliance with best practices and standards.

Improve Information Technology Contingency and Disaster Recovery Plan Update Process

Motor Vehicles recently updated its information technology continuity of operations and disaster recovery plans. However, while updating these documents, Motor Vehicles did not assign a recovery time objective (RTO) for a mission critical and sensitive system, the Driver License Central Issuance (DLCI) system. Additionally, since the introduction of DLCI two years ago, Motor Vehicles' agency-wide contingency plan does not reflect the new system.

The Commonwealth's Information Security Standard, SEC501-06 Sections 2.3.2 (5a) and 3.2.2 (2a), requires agencies to determine RTOs for systems classified as sensitive. A system is sensitive if its data requires high confidentiality, high integrity, or high availability.

The standard, Section 3.2.2 (1), also requires that Motor Vehicles "Designate an employee to collaborate with the agency Continuity of Operations Plan (COOP) coordinator as the focal point for IT aspects of COOP and related Disaster Recovery (DR) planning activities."

We recommend that Motor Vehicles review its IT Contingency and Disaster Recovery Plan update process and consider enhancing it to ensure it includes RTOs for all mission critical and sensitive systems. We also recommend that Motor Vehicles' Information Technology Security group appoint an employee that communicates any changes in the IT contingency and disaster recovery plans to the agency COOP coordinator to ensure consistency.

Improve User Access Control Across Systems

Motor Vehicles does not periodically review user account privileges in its IT system that controls access to certain sensitive applications and files. The Commonwealth's Information Security Standard, SEC 501-06 Section 5.2.2 (6), requires agencies to review all user accounts and corresponding privileges for the users' continued need to access all IT systems.

Motor Vehicles is working with the Commonwealth's IT Partnership with Northrop Grumman to establish an account review process; however, due to circumstances beyond Motor Vehicles' control, the process is stalled and there is no definite completion date.

We recommend that Motor Vehicles continue working with the IT Partnership and the Commonwealth's Chief Information Officer to escalate the urgency within the Partnership to complete the necessary tasks to establish a process to review user accounts and the associated privileges. In the meantime, we recommend that Motor Vehicles periodically compare the active accounts to a listing of active employees, ensuring accounts identified as belonging to terminated employees are deleted.

Improve Web Application Security

Motor Vehicles uses outdated software for an essential component in a key web application system. The outdated software no longer receives security updates from its vendor, which makes the system more vulnerable to potential attacks from the internet.

We have communicated some additional details of this weakness to management in a separate document marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the Code of Virginia, due to their sensitivity and description of security controls. We recommend that Motor Vehicles address these concerns to reduce the risk of a malicious user taking advantage of the weakness to exploit the system and the data it contains.

Status on Prior Year Finding: Improve Controls over Small Purchase Charge Cards

In the prior year, we identified several internal control issues with the Motor Vehicles' Small Purchase Charge Card (SPCC) program. In response to this finding, Motor Vehicles' Internal Audit Department conducted a separate detailed review of the SPCC program and related internal controls. Internal Audit discussed the results of their review with management in September and management has initiated activities to address the results of both audits.

While Motor Vehicles is currently addressing many of the issues cited in both reports through the implementation of new policies and procedures, the process is still ongoing. We believe these policies and procedures, if implemented as designed, will address the previously reported concerns, and therefore acknowledge the progress Motor Vehicles has made in this area.

We will conduct detailed testing of fiscal year 2013 transactions during our next audit to assess the effectiveness of the updated policies and procedures. In the interim, we encourage management to continue to move forward in updating its procedures and implementing controls to ensure proper usage of purchase cards.

DEPARTMENT OF TRANSPORTATION

Improve Database Security

The Department of Transportation (Transportation) did not implement certain controls in a key Oracle database that stores sensitive information. The Center for Internet Security Oracle 11g Database best practices recommends implementing specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability. We have communicated the details of this issue to management in a separate document marked Freedom of Information Act Exempt under Section 2.2-3705.2 of the Code of Virginia, due to their sensitivity and description of security controls.

Improve Financial Reporting Procedures

Transportation's unaudited Accounts Receivable, Commitments, and Schedule of Federal Expenditures submissions for the Commonwealth's Comprehensive Annual Financial Report (CAFR) compilation contained omissions or errors which in some instances resulted in material misstatements or misclassifications. System implementation, data conversion and the financial reporting preparation and review processes did not include sufficient procedures to prevent or detect these errors or omissions.

The nature of data converted from Transportation's old to its new financial reporting system impacted the accuracy of queries used to support their CAFR submissions. While Transportation performed reviews on a sample basis to ensure the accuracy of the information both during conversion and when their financial reporting queries were run, Transportation's review was not sufficient to identify the errors noted above.

Further, over the past several years Transportation has experienced turnover within their Accounts Receivable personnel. This, combined with the implementation of a new system, without updated procedures, made it difficult for the agency personnel responsible for preparing this submission to adequately consider the inclusion and classification of receivables, or be capable of questioning items that fell outside of expectations.

Transportation should ensure that their financial reporting procedures over these areas provide sufficient direction for new personnel as well as adequate controls to prevent or detect and correct mistakes such as those identified above. We recognize that a system implementation of this scope is unusual and infrequent and acknowledge Transportation's ongoing efforts to ensure future system queries designed to support financial reporting are appropriately reviewed for reasonableness and accuracy. Improved financial reporting controls will ensure Transportation's unaudited financial

submissions are materially correct and accurately represent its operations in order to meet Transportation and the Commonwealth's financial reporting needs.

Improve Internal Controls Supporting Davis-Bacon Act Compliance

Transportation does not sufficiently monitor certified payroll submissions from contractors and/or subcontractors to ensure their adherence with the Davis-Bacon Act (Code of Federal Regulations Title 29 Parts 1, 3, 5, 6 and 7). The Davis-Bacon Act requires that contractors and subcontractors submit weekly payrolls to Transportation for federally funded construction contracts exceeding \$2,000 to ensure they pay prevailing wage rates predetermined by the Department of Labor.

Transportation relies on its SiteManager system to facilitate its oversight activities. District office staff support the process by entering the payroll receipt date into SiteManager as well as date stamping the payroll submission. We observed several instances where these steps were not being properly or consistently followed, impacting Transportation's ability to properly monitor the submissions. Transportation's Civil Rights Division, tasked with centrally monitoring Davis-Bacon Act compliance, cites insufficient staffing in district offices as impacting their ability to achieve full compliance with their own policies and procedures.

As our testwork did not identify any specific instances of contractor non-compliance in paying the prevailing wage, we are not questioning any federal costs. However, ineffective monitoring of contractor and subcontractor payrolls could allow instances of non-compliance to go undetected and ultimately result in the loss of federal funding.

Transportation should either provide additional staff as necessary to follow their existing policies and procedures, or evaluate and update their policies and procedures to reflect a process that will enable them to ensure contractor compliance with the Davis Bacon Act within the constraints of their available resources.

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

Improve Grants Monitoring and Management Processes

The Department of Rail and Public Transportation (Rail and Public Transportation) does not have sufficient policies and procedures clearly delineating roles and responsibilities of staff for grants monitoring and management. Further, staff do not consistently follow the policies and procedures that do exist. Specifically, certain compliance and grantee review activities are not consistently performed or documented, nor are grantee annual audited financial statements obtained or reviewed as required.

Inconsistent grants monitoring and management can lead to funding being distributed to ineligible grantees, misuse of funds by grantees, the incorrect amount of funds being distributed in a grant period, and general inefficiencies in the overall process. Further, insufficient policies and

procedures make the transitioning of employees in and out of grants management roles more difficult.

Many of the issues observed can be attributed to the merger of the Rail and Transit Divisions into a single division during 2012. While a single Grantee handbook governing grant administration existed, each division observed their own grants management process prior to the merger. The previously separate approaches to the essentially same process resulted in inconsistency and confusion regarding how grantees should be monitored moving forward.

Rail and Public Transportation has recognized this as an issue and is in the process of developing and implementing a single comprehensive standard for all grants management. Once updated, Rail and Public Transportation should provide training to orient all grant managers with the policies. Finally, management should ensure that grant managers are following and consistently applying the policies and procedures to all grantees.

TRANSPORTATION AGENCY OVERVIEW

The agencies of the Secretary of Transportation oversee land, air, and water transportation in the Commonwealth. They employed over 8,000 people and spent a combined \$4.7 billion on transportation in fiscal year 2012. Their responsibilities include collecting revenues from taxes, licenses, and registrations to fund operations; developing and maintaining highways, airports, and seaports; and assisting in the development of private and local rail, public transportation, highways, airports, and seaports.

In addition to reporting to the Secretary of Transportation, Transportation and Rail and Public Transportation also report to the Commonwealth Transportation Board, who establishes administrative policies for Virginia's transportation system, locates routes, allocates highway funding to specific projects, and provides funding for airports, seaports and public transportation.

This report presents a brief description as well as limited highlights from fiscal year 2012 for each agency under the Secretary, with the exception of the Virginia Port Authority. Information about the Port Authority can be found in its separate Comprehensive Annual Financial Report, audited by a separate CPA firm. The Commonwealth's Comprehensive Annual Financial Report and Statewide Single Audit Report include additional financial information about these agencies as well as the Commonwealth Transportation Fund. Our website, www.apa.virginia.gov provides access to each of the reports.

SOURCE AND USE OF FUNDING

Commonwealth Transportation Fund

The Commonwealth Transportation Fund (CTF) is comprised of a number of special funds dedicated to supporting the various modes of transportation through the activities of the Departments of Transportation, Motor Vehicles, Rail and Public Transportation and Aviation, as well as the Virginia Port Authority. The CTF provides the majority, if not all, of the funding for these agencies, with the exception of the Virginia Port Authority.

Appendix A, included at the back of this report, provides a visual representation of the various funds included in the CTF, the flow of revenues into them and the required use of those funds where set out by the Code of Virginia.

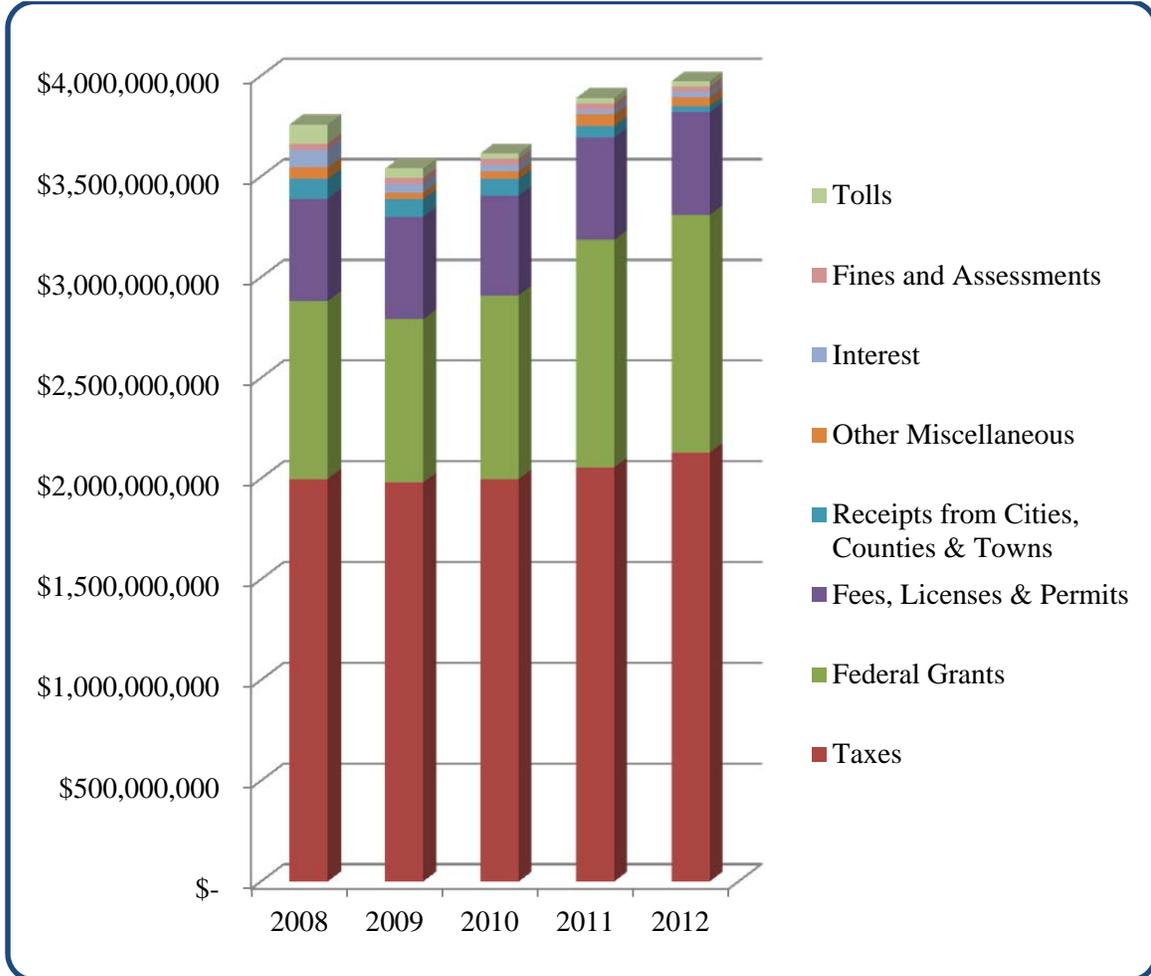
Three main revenue sources, excluding debt, provide 96 percent of the funding for the CTF:

- taxes dedicated to fund transportation by the Code of Virginia;
- federal grants and contracts; and
- fees, licenses, and permits related to transportation activities.

For fiscal year 2012, these and the remaining non-debt related CTF sources generated \$3.9 billion in transportation funding. Chart A on the following page reflects the breakdown of the CTF non-debt related revenue sources over the past five years.

**Five-year Trend of Commonwealth Transportation Fund Revenues
(Excluding Bond Proceeds)**

Chart A



*The legend order mirrors the order of the items presented in this Chart from top to bottom. Other miscellaneous revenues include rent, donations, and sale of services, property, and recycling.

Tax-related collections represent the largest source of collections and have remained relatively stable during this period, averaging \$2 billion annually, while the federal grants received within the CTF have increased. Much of the growth in federal funds results from the American Reinvestment and Recovery Act of 2009, which provided a one-time influx of additional federal dollars for construction-related projects.

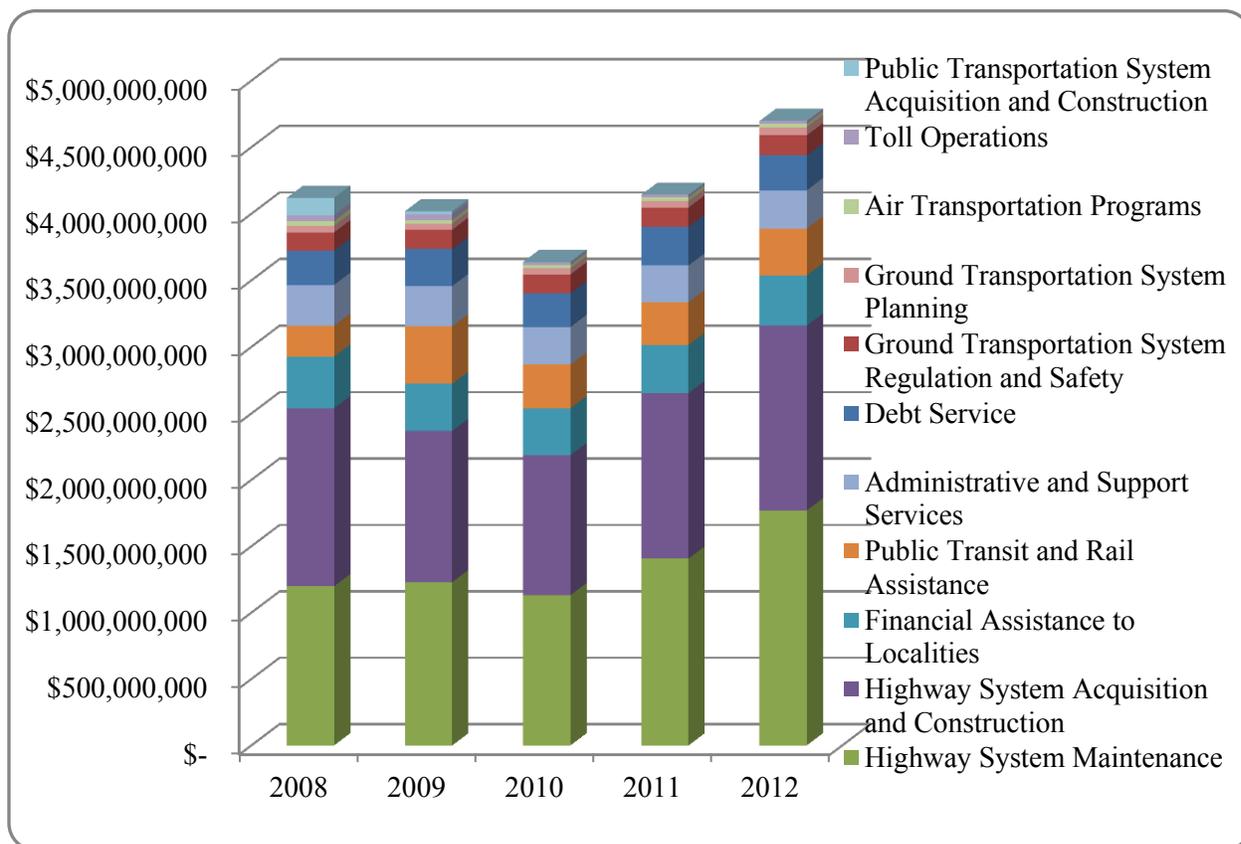
The long term forecast for federal funding remains a concern for the Commonwealth as Congress funded the primary grant supporting Transportation through continuing resolutions since 2009, limiting the funding horizon to seven-month periods. The most recent federal transportation legislation, MAP-21, signed into law in July 2012, provides a slightly longer authorization of two years. However, federal transportation commitments, which are backed by federal gas taxes, have required federal general fund supplements since 2009. These supplements are subject to sequestration should that action be taken at the federal level.

Use of Funds

In fiscal year 2012, the agencies under the Secretary of Transportation spent over \$4.7 billion, or just over 10 percent of the Commonwealth's annual budget. Maintenance and construction of highways are perpetually the largest uses of these funds. However, as Chart B below reveals, in recent years larger percentages of transportation resources have gone to highway maintenance. The shift in uses of funds reflects the aging of the Commonwealth's infrastructure as well as a flattening of the revenue sources that support maintenance activities leading to the crossover of construction funding to support maintenance activities.

Five-year Trend of the Use of Funds

Chart B



*The legend order mirrors the order of the items presented in this Chart from top to bottom.

Since fiscal year 2002 more than \$3 billion in road construction funding has been shifted to support maintenance needs as prescribed by the Code of Virginia. While the crossover amount in 2012 declined from its one year high of over \$500 million in 2011 and is anticipated to further decline in fiscal year 2013, current budgetary forecasts indicate that it will increase in the future.

Use of Debt

In the near term, to meet the Commonwealth's growing transportation infrastructure construction needs, the General Assembly has authorized the use of tax-supported and other forms of debt as a means for funding construction. House Bill 3202 passed by the General Assembly in 2007

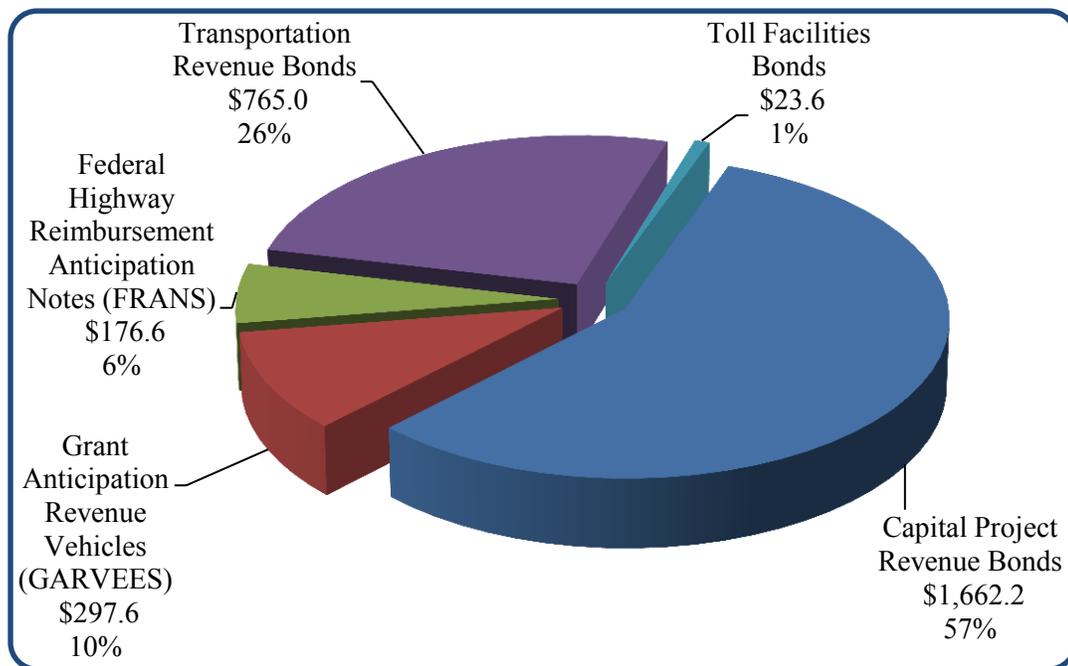
and Chapter 781 of the Acts of the Assembly of 2009 authorized the issuance of up to \$3.2 billion of Capital Projects Revenue Bonds to support highway, transit and rail capital projects. House Bill 2527 and Senate Bill 1446 passed by the General Assembly in 2011 authorize the acceleration of the release of these Capital Projects Revenue Bonds as well as the issuance of up to \$1.2 billion of Federal Transportation Grant Anticipation Revenue Notes.

The Commonwealth plans to use \$1.2 billion (38 percent) of the 2007 authorization for rail and transit projects. The balance of all authorizations will provide cash-flow for existing projects within the Commonwealth’s Six-Year Improvement Program that are without specific projects designation. Prioritization is given to fulfilling federal and revenue sharing matching requirements set out in §33.1-23.4:01.3 of the Code of Virginia.

Chart C below reflects the breakdown of the Transportation Agency Bonds Payable Outstanding as of June 30, 2012, excluding the outstanding balances for the Port Authority. The outstanding bonds are supported in part or in whole by the CTF, with the exception of the Toll Facilities Revenue Bonds, which are payable from the revenues of the toll facilities.

Transportation Agency Bonds Payable Outstanding as of June 30, 2012
(dollars in millions)

Chart C



Summary of the Sources and Uses of Funds

Appendix B included at the end of this report provides a summary of the sources and uses of funds on a cash basis, by the agencies of the Secretary of Transportation, for the years ending June 30, 2011 and 2012, broken down by CTF and non-CTF sources, with one exception. Since the Port Authority issues its own Comprehensive Annual Financial Report, we have not included their financial activity within Appendix B. The Port Authority’s Comprehensive Annual Financial Report can be found on our website, www.apa.virginia.gov.

TRANSPORTATION AGENCY HIGHLIGHTS

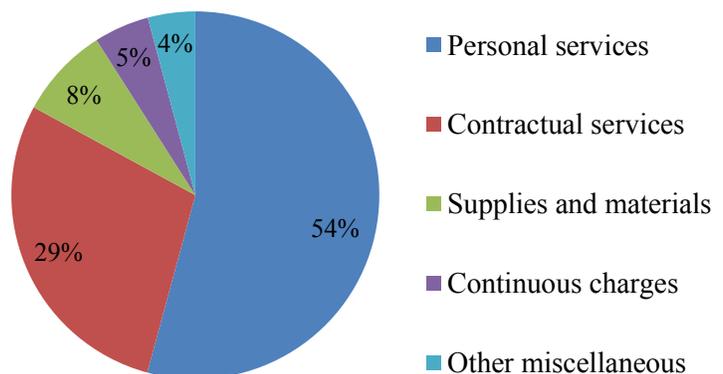
Department of Motor Vehicles

Motor Vehicles administers the Commonwealth's motor vehicle and motor vehicle tax-related laws. This includes driver licensing; vehicle registration; disabled parking placards; hauling permits; motor carrier permits and inspections; records, and other services. Motor Vehicles also collects commercial fuels tax on behalf of the Commonwealth.

Due to the broad number of areas supported by the agency, Motor Vehicles has more face-to-face contact with Virginia's citizens and businesses than any other state agency. Motor Vehicles serves a wide array of businesses, including motor vehicle dealers, fuels tax customers, driving schools, other state agencies, local governments and non-profit organizations. Through its central office in Richmond, Motor Vehicles supports 74 customer service centers, five mobile units, two call centers, 13 weigh stations and 57 DMV Select locations. Virginia's citizens and businesses can also complete many Motor Vehicle transactions through the Internet, automated telephone tools and mail.

Motor Vehicles serves as the largest collection point for the myriad of revenues supporting the CTF. To support their operations, Motor Vehicles retains a certain percentage of the funds they collect depending on the revenue type collected. In fiscal year 2012, Motor Vehicles retained \$219.3 million of the \$2.0 billion they collected to offset their \$207.9 million in operational expenses. Personnel costs and contractual services made up the majority (83 percent) of Motor Vehicles operational expenses during the same period.

**Motor Vehicles Operational Expenses
as of June 30, 2012**



During fiscal year 2012, Motor Vehicles and the Department of Game and Inland Fisheries entered a new partnership whereby Motor Vehicles customers can now buy fishing and hunting licenses and temporary boat registrations at any Motor Vehicles customer service center, including the mobile offices. This partnership is part of a broader initiative to identify ways to streamline government services and make them more accessible by providing a convenient portal for citizens to access other state agency services.

Likewise, Motor Vehicles has been working on identifying ways to decrease operational costs and streamline their own operations. As of July 1, 2012, Motor Vehicles will no longer collect the Vehicle Rental Tax. The 2011 General Assembly transferred this responsibility to the Tax Commissioner. Motor Vehicles receives no compensation for the collection of this tax and as a

result, they will realize savings as resources previously used to collect, track, and transmit this tax will be directed to other areas.

Additionally, Motor Vehicles anticipates realizing further savings by bringing in-house the dealer print-on-demand and driver and vehicle information transmission services currently handled on their behalf by Virginia Interactive. Annual fees collected for these services averaged \$27.1 million per year over the past five years, of which Virginia Interactive has retained approximately 14 percent per year. Once fully transitioned in the spring of 2013, Motor Vehicles will no longer pay these fees; however, they will have increased operational costs to support their development, implementation and maintenance of these web enabled services.

Customer Services System Redesign – FACE Program

A key driver to support Motor Vehicles operational initiatives is the modernization of its information systems. After efforts to modernize its primary customer data system realized limited success after six years, Motor Vehicles established the FACE program office during fiscal year 2012 to address its modernization needs. To date the FACE program has completed five of the 34 projects making up the program, culminating in the roll out of new functionality to all Motor Vehicles' customer service centers by March 2013.

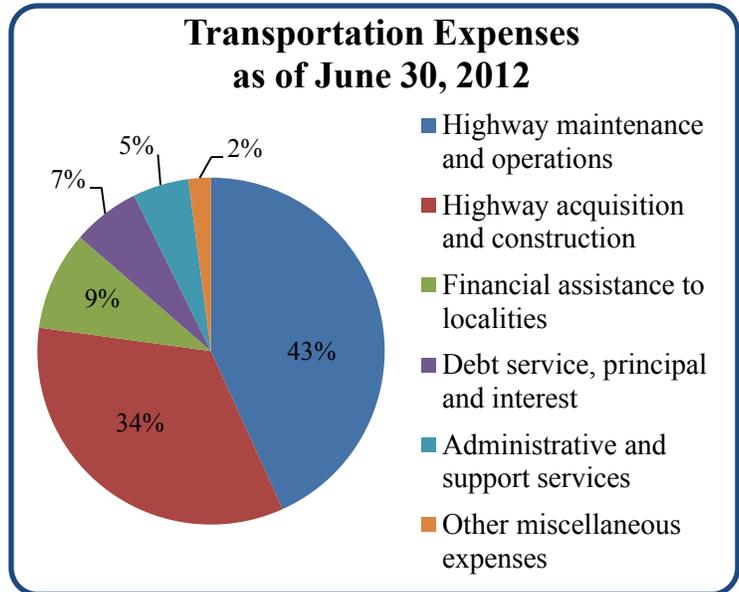
Implementation of this first phase of projects includes installation of "mySelect," which allows agency personnel a 360 degree view of customers and includes current transaction requirements, provides alerts for future transactions, and features shopping cart functionality providing for the accumulation of multiple transactions. Through this concept, Motor Vehicles believes customer service will be streamlined; transaction times will be decreased; and the overall customer experience will be more efficient. The remaining projects will focus on addressing the needs of Motor Vehicles' other work centers. Motor Vehicles anticipates it will take three to four years to complete the remaining projects.

Department of Transportation

The Commonwealth has the third largest state-maintained highway systems in the United States, behind Texas and North Carolina. Transportation manages more than 58,000 miles of interstate, primary, and secondary roads and provides funding to support the maintenance of over 11,500 miles of urban streets. Transportation also maintains or operates more than 12,600 bridges, four underwater tunnels, two mountain tunnels, two toll roads or bridges, four ferry services, several traffic operations centers, 41 rest areas, 12 welcome centers, and 114 commuter parking lots.

To support these services Transportation has divided the state into nine districts. Within these districts there are 29 residences, two district satellite offices responsible for one to four counties each, and more than 180 local offices and maintenance facilities.

Highway maintenance and operations represented approximately 43 percent of Transportation's almost \$4.1 billion in expenses for fiscal year 2012, followed by approximately 34 percent for highway acquisition and construction. The remaining expenses were directed towards providing support to other agencies or government entities, addressing the needs and requirements of Transportation's debt service, and covering administrative costs of the agency.



Financial Management System Replacement

During fiscal year 2012 Transportation continued their efforts leading the implementation of the Commonwealth's new financial management system, Cardinal, using PeopleSoft as the software foundation. Two core modules of Cardinal, the general ledger and accounts payable, will serve as the base enterprise application for the Commonwealth and replace the existing Commonwealth Accounting and Reporting System (CARS). Transportation's entire planned system for Part 1 expands beyond the base modules provided to the Commonwealth to include functionality such as project accounting and time entry. Transportation went live with their Part 1 modules on December 5, 2011.

Additional information about the Cardinal Project's implementation for the Commonwealth can be found on our website, www.apa.virginia.gov, within the Agencies of the Secretary of Finance report on audit for the year ended June 30, 2012, as well as our Progress Report on Selected Systems Development Projects in the Commonwealth scheduled for release in Spring 2013.

Department of Rail and Public Transportation

Rail and Public Transportation is primarily responsible for determining the present and future needs for rail and public transportation throughout the Commonwealth. Each of Rail and Public Transportation's three primary areas of activity (rail, public transportation, and commuter services) focuses on the movement of people and goods throughout Virginia. This task includes economic feasibility assessment of providing public transportation; transportation demand management; ridesharing facilities and services; and the retention, improvement, and addition of passenger and freight rail transportation in the Commonwealth.

Rail and Public Transportation supports both passenger and freight rail initiatives through funding options, advice, research, and advocacy. To safeguard Virginia's connections to the

national rail network, Rail and Public Transportation represents the state's interests in interstate and national rail issues. Likewise, public transportation systems and commuter services help manage traffic congestion and provide transportation choices while safely moving people to destinations throughout the Commonwealth.

Rail and Public Transportation coordinates their research, planning, and policy analysis efforts with Transportation, developing standards to evaluate all public transportation activities in the Commonwealth. Finally, Rail and Public Transportation maintains liaisons with state,

local, district, and federal agencies or other entities, private or public, having comparable responsibilities for passenger and freight rail, transportation demand management, ridesharing, and public transportation programs at various service levels.

Ninety-seven percent of Rail and Public Transportation's funding in fiscal year 2012 provided support for public transit and rail assistance for local and regional projects. Rail and Public Transportation's internal operating and administrative expenses use a little more than one percent of their funding.

Department of Aviation

Aviation plans and promotes air transportation in the Commonwealth; licenses aircraft and airports; and funds local airport planning, development, and improvements. Aviation provides financial and technical assistance to eligible sponsors for the planning, development, promotion, construction, and operation of airports and aviation facilities.

Aviation administers applicable provisions of the Code of Virginia and plans for the development of a state aviation system, including airports and landing areas. Aviation also provides air transportation services to the Governor, the Legislature, and state agencies. In fiscal year 2012, Aviation spent 76 percent of their funding to provide financial assistance to local airports, 15 percent on delivery of services to clients, and less than six percent to cover administrative expenses.

Motor Vehicle Dealer Board

The Dealer Board regulates more than 3,460 motor vehicle dealers and 17,450 salespersons. The Dealer Board's regulatory powers and responsibilities include testing, issuing licenses and certificates to dealers and salespersons, developing regulations, conducting inspections, and responding to complaints concerning licensed dealers and salespersons. The Dealer Board can

Rail and Public Transportation works closely with the

- 62 Transit Systems,
- 55 Human Service Transport Operators,
- One Commuter Rail Operator,
- 18 Transportation Demand Management Agencies,
- 9 Short-line Railroads,
- Two Class I Freight Railroads, and
- One Intercity Passenger Rail Operator,

which support and provide mass transit options in the Commonwealth.

invoke disciplinary actions including, but not limited to, revoking licenses or certifications and assessing civil penalties for regulatory violations. In addition, the Dealer Board administers the Motor Vehicle Transaction Recovery Fund, established to reimburse persons who suffer loss or damage in connection with the purchase or lease of a motor vehicle due to illegal actions of licensed or registered motor vehicle dealers or salespersons. In fiscal year 2012, personnel costs represented 78 percent of the Dealer Board's total expenses or approximately \$1.6 million of the \$2 million spent. Contractual services and continuous charges reflect the next 20 percent of the Board's expenses.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

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December 14, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Agencies of the Secretary of Transportation**, as defined in the Audit Scope and Methodology section below, for the year ended June 30, 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objective was to evaluate the accuracy of Agencies of the Secretary of Transportation financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2012 and test compliance for the Statewide Single Audit. In support of this objective, for those agencies with significant cycles as listed below, we evaluated the accuracy of recording financial transactions in the Commonwealth Accounting and Reporting System and in their accounting records, and other financial information they reported to the Department of Accounts, reviewed the adequacy of their internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Management of the Agencies of the Secretary of Transportation has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Department of Motor Vehicles

Accounts receivable and revenues	Information security and general system
Payroll and other expenses	controls
Financial reporting	

Department of Transportation

Accounts receivable and revenues	Federal revenues, expenses and compliance
Accounts payable and disbursements	for Highway Planning and Construction
Capital asset management	Payroll
Cash and debt management	Information security and general system
Contract management	controls
Inventory	

Department of Rail and Public Transportation

Revenues	Grants management
Expenses	Information security and general system
Financial reporting	controls

Department of Aviation

Revenues	Information security and general system
Expenses	controls

Motor Vehicles Dealer Board

Revenues	Information security and general system
Expenses	controls

The Virginia Port Authority was audited by other auditors and their report can be found at www.apa.virginia.gov. Accordingly, the Virginia Port Authority was not included in the scope of this audit.

We performed audit tests to determine whether the Agencies' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, re-performance of automated processes, inspection of documents, records, contracts, reconciliations, board minutes, and the Code of Virginia, and observation of the Agencies' operations. We tested transactions and system access, performed analytical procedures, including

budgetary and trend analyses. We confirmed cash balances with outside parties. Where applicable, we compared an agency's policies to best practices and Commonwealth standards.

Conclusions

We found that the Agencies of the Secretary of Transportation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in other financial information reported to the Department of Accounts for inclusion in the Comprehensive Annual Financial Report for the Commonwealth of Virginia. The Agencies record their financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Agencies have taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management at the Agencies of the Secretary of Transportation as we completed our work on each agency. Management's responses to the findings identified in our audit, where provided, are included in the section titled "Agency Responses." We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

JBS/alh



COMMONWEALTH of VIRGINIA

Department of Motor Vehicles
2300 West Broad Street

Richard D. Holcomb
Commissioner

Post Office Box 27412
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February 7, 2013

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 Commonwealth Transportation Fund, Agencies of the Secretary of Transportation, for the fiscal year ended June 30, 2012. We appreciate the professionalism and guidance of your staff, and are pleased that there were no findings related to our financial operations.

The corrective action plans we are proposing in response to your findings have been provided to your staff. DMV has made progress on mitigating and/or remediating the issues identified in the audit and we continue to work with VITA and Northrop Grumman on the IT findings. 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".

Richard D. Holcomb

RDH:dm



COMMONWEALTH of VIRGINIA

THELMA D. DRAKE
Director

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION
600 EAST MAIN STREET, SUITE 2102
RICHMOND, VA 23219-2416

(804) 786-4440
FAX (804) 225-3752
Virginia Relay Center
800-828-1120 (TDD)

February 5, 2013

Ms. Martha S. Mavredes
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

Thank you for affording the Department of Rail and Public Transportation (DRPT) the opportunity to comment on the Commonwealth Transportation Fund audit for Fiscal Year 2012. DRPT concurs with the Auditor of Public Accounts' audit finding. Over the past year, DRPT has reorganized in an effort to address the very issues cited.

A large portion of Fiscal Year 2012 was devoted to the reorganization, which was completed in the spring of 2012. During the next six months, the goal of the agency is to finish the recruitments and integrate the new personnel into the organization structure with a significant emphasis on agency-wide project management.

Additionally, DRPT held management team meetings in August and established working committees to target specific areas for improvement. These committees are focused on Project Management, Procurement, and Document Management System. During the coming year, it is the Agency's intention to implement significant improvements in all of these areas.

In some cases, as you have noted, DRPT just needs to better define responsibilities and more clearly document policies and procedures. In the case of project management, DRPT recognizes it as a larger issue and remains committed to defining an agency-wide standard, to training our employees, and to implementing a true project management process versus the symptoms management process that DRPT has too often employed in the past.

I thank you and your staff for your assistance during this review. Please let me know if you have any questions or concerns.

Sincerely,

A handwritten signature in cursive script that reads "Thelma Drake".

Thelma Drake

C: The Honorable Sean T. Connaughton
DRPT Executive Staff



COMMONWEALTH of VIRGINIA

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

Gregory A. Whirley
Commissioner

February 12, 2013

Ms. Martha Mavredes
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

I appreciate the opportunity to comment on the Commonwealth Transportation Fund Audit for Fiscal Year 2012. The Department has strived to maintain its good record of effective financial operations and controls.

With respect to the comment on the Department's monitoring of payroll submissions from contractors to ensure compliance with the Davis-Bacon Act, APA has acknowledged no instances of contractor non compliance were identified. To assist with future compliance, VDOT's Civil Rights Division has entered an agreement with the Scheduling and Contracts Division to provide additional resources to assist with labor compliance. Other additional steps have commenced to ensure proper monitoring which include reinforcing proper procedures in District Civil Rights Offices, and interviewing employees of prime contractors and subcontractors to ensure Davis-Bacon Act wages are being paid. Lastly, the Civil Rights Division in collaboration with VDOT's Information Technology Division, is currently implementing the Civil Rights Labor Management System. This will assist VDOT to be more effective and efficient in monitoring certified payroll submissions. This system will be implemented by June 30, 2014.

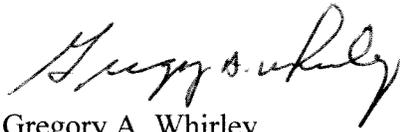
Regarding the comment on improving the financial reporting procedures for VDOT submissions to the Department of Accounts, APA has recognized that the implementation of a financial system the scope of VDOT's is unusual and infrequent. With the implementation of the new system, VDOT made efforts to develop queries and reports to support submissions for the Commonwealth's Comprehensive Annual Financial Report. These queries and reports were reviewed for reasonableness and accuracy. VDOT will continue its on-going efforts to update procedures and refine and validate the reports and queries provided by the new financial system. These steps, to be completed by June 30, 2013, will assist in providing accurate submissions to meet VDOT's and the Commonwealth's financial reporting needs.

Ms. Martha Mavredes
February 12, 2013
Page Two

In regards to the final comment to improve security in the Oracle data base related to the recent implementation of VDOT's new financial system, VDOT has submitted a detailed corrective action plan, which is Freedom of Information Act exempt, containing two corrective actions. These corrective actions were completed in December 2012.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Gregory A. Whirley". The signature is written in a cursive style with a large initial "G".

Gregory A. Whirley

cc: The Honorable Sean T. Connaughton

OFFICIALS

As of June 30, 2012

Sean Connaughton, Secretary of Transportation

David Tyeryar, Deputy Secretary

Department of Motor Vehicles
Richard D. Holcomb, Commissioner

Department of Transportation
Gregory A. Whirley, Sr., Commissioner

Department of Rail and Public Transportation
Thelma Drake, Executive Director

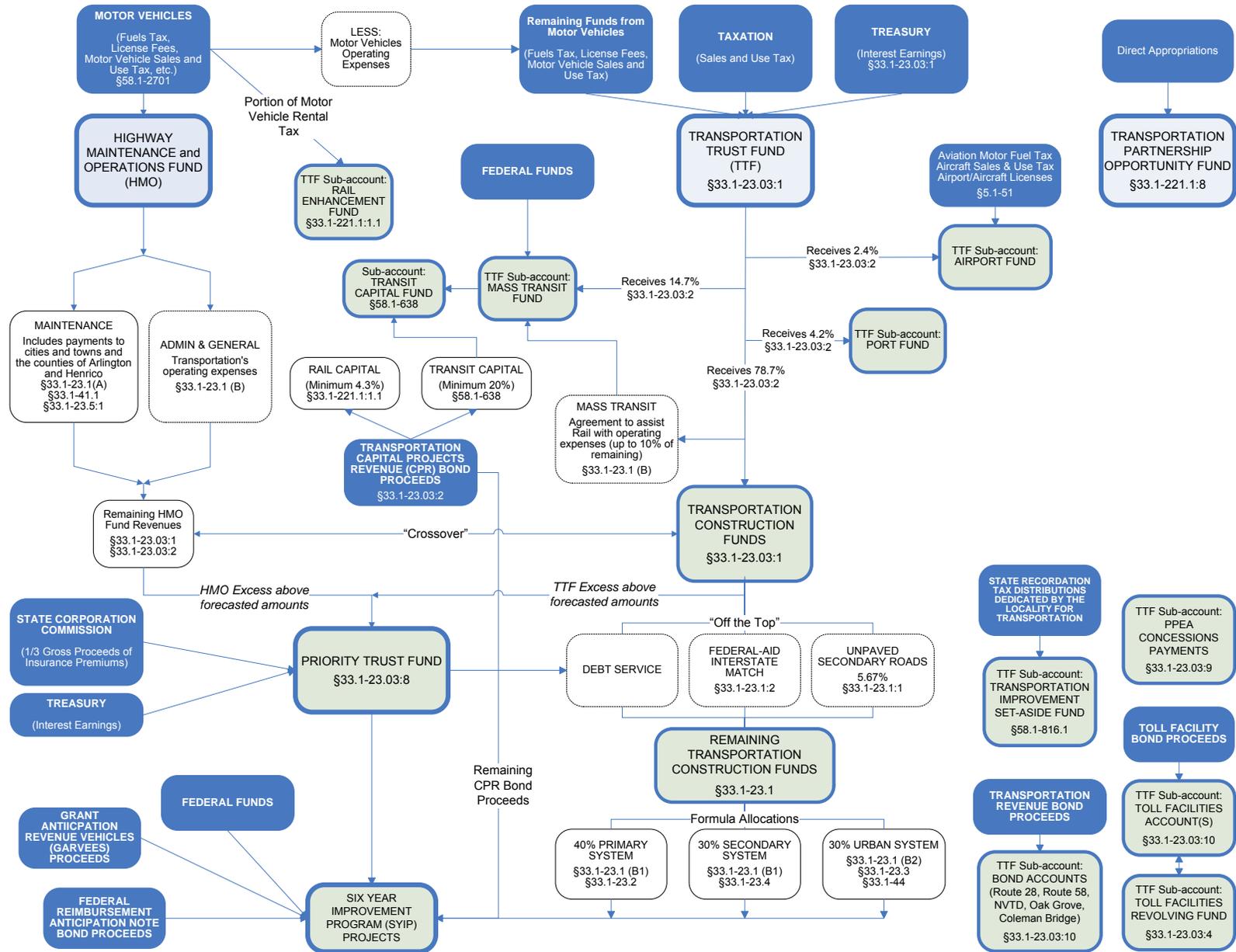
Department of Aviation
Randall P. Burdette, Executive Director

Motor Vehicle Dealer Board
Bruce Gould, Executive Director

COMMONWEALTH TRANSPORTATION BOARD

Sean T. Connaughton, Chairman
Gregory A. Whirley, Sr., Vice Chairman

Jim D. Bowie	J. Douglas Koelemay
Roger Cole	Allen L. Louderback
James A. Davis	Aubrey L. Layne, Jr.
Thelma Drake	Dana M. Martin
Hollis D. Ellis	W. Sheppard Miller, III
F. Gary Garczynski	Mark J. Peake
James L. Keen	James E Rich
Cord A. Sterling	



AGENCIES OF THE SECRETARY OF TRANSPORTATION
SUMMARY OF FINANCIAL INFORMATION
SOURCES AND USES
Cash Basis, For Fiscal Years 2012 and 2011

Sources:	Department of Motor Vehicles		Department of Transportation		Department of Rail and Public Transportation	
	2012	2011	2012	2011	2012	2011
CTF Sources (net of refunds):						
Taxes	\$ 1,082,607,732	\$ 1,059,210,271	\$ 814,285,347	\$ 775,481,648	\$ 170,284,362	\$ 161,010,367
Federal grants	-	-	1,141,825,979	1,092,704,988	37,004,696	35,881,127
Fees, licenses & permits	470,263,899	467,915,760	35,042,017	35,827,698	3,091,866	3,114,239
Fines & assessments	26,887,834	27,465,789	2,100,785	2,637,542	7,356	6,353
Other miscellaneous	207,353	594,792	36,836,250	51,516,862	220,828	-
Interest, dividends & rent	383,313	281,102	27,242,772	27,308,056	2,028,481	1,774,580
Receipts from cities, counties & towns	-	-	30,871,420	55,774,602	687,446	809,740
Tolls	-	-	26,337,994	28,772,001	-	-
Revenue bond proceeds	-	-	1,220,642,519	647,675,556	-	-
Total CTF sources	1,580,350,132	1,555,467,715	3,335,185,083	2,717,698,951	213,325,036	202,596,406
Non-CTF Sources (net of refunds):						
General fund appropriations	-	-	135,241,000	44,700,000	-	-
Federal grants	(29,523)	(26,329)	-	-	-	-
Taxes	(144,408)	(117,597)	-	-	-	-
Fees, licenses, permits, fines & assessments	1,002,934	2,646,201	-	-	-	-
Other miscellaneous	188,500	67,699	1,694,583	-	-	-
Total non-CTF sources	1,017,503	2,569,975	136,935,583	44,700,000	-	-
Total sources	1,581,367,635	1,558,037,690	3,472,120,666	2,762,398,951	213,325,036	202,596,406
Net transfers in/(out)	(1,362,113,463)	(1,340,457,712)	1,204,119,206	1,162,523,961	179,653,510	181,755,729
Total funds available for use	\$ 219,254,172	\$ 217,579,978	\$ 4,676,239,872	\$ 3,924,922,911	\$ 392,978,545	\$ 384,352,135
Uses:						
Expenses (net of refunds):						
Administrative & support services	\$ 55,959,372	\$ 65,835,533	\$ 213,560,146	\$ 202,016,567	\$ 4,897,552	\$ 4,461,562
Air transportation programs	-	-	-	-	-	-
Capital Outlay projects	1,250,875	512,399	7,815,987	8,646,618	-	-
Environmental monitoring & evaluation	-	-	8,018,020	10,771,735	-	-
Financial assistance to localities	-	-	377,631,459	361,876,952	-	-
Ground transportation regulation	144,339,606	137,639,175	-	-	-	-
Ground transportation planning	-	-	46,690,945	33,062,799	6,470,399	4,221,094
Ground transportation safety	6,346,086	6,085,349	-	-	-	-
Highway acquisition & construction	-	-	1,389,447,579	1,245,790,062	-	-
Highway maintenance	-	-	1,770,241,954	1,407,468,993	-	-
Mass transit assistance	-	-	-	-	309,167,536	302,164,370
Debt service, principal & interest	-	-	261,538,745	291,033,776	-	-
Rail assistance	-	-	-	-	42,680,842	18,248,705
Regulation of professions & occupations	-	-	-	-	-	-
Toll facility operations	-	-	19,969,229	18,680,908	-	-
Total uses	\$ 207,895,939	\$ 210,072,457	\$ 4,094,914,064	\$ 3,579,348,410	\$ 363,216,329	\$ 329,095,730

Source: Commonwealth Accounting and Reporting System

Sources:	Department of Aviation		Motor Vehicle Dealer Board		Total Agencies of the Secretary of Transportation	
	2012	2011	2012	2011	2012	2011
CTF Sources (net of refunds):						
Taxes	\$ 28,811,580	\$ 28,773,056	\$ -	\$ -	\$ 2,095,989,021	\$ 2,024,475,343
Federal grants	-	-	-	-	1,178,830,675	1,128,586,115
Fees, licenses & permits	519,581	523,837	-	-	508,917,364	507,381,533
Fines & assessments	1,201	1,037	-	-	28,997,177	30,110,722
Other miscellaneous	727,988	663,945	-	-	37,992,419	52,775,599
Interest, dividends & rent	368,886	359,082	-	-	30,023,453	29,722,819
Receipts from cities, counties & towns	-	-	-	-	31,558,865	56,584,342
Tolls	-	-	-	-	26,337,994	28,772,001
Revenue bond proceeds	-	-	-	-	1,220,642,518.81	647,675,555.85
Total CTF sources	30,429,237	30,320,957	-	-	5,159,289,487	4,506,084,029
Non-CTF Sources (net of refunds):						
General fund appropriations	30,246	34,355	-	-	135,271,246	44,734,355
Federal grants	64,918	1,305,305	-	-	35,395	1,278,976
Taxes	-	-	125,688	-	(18,720)	(117,597)
Fees, licenses, permits, fines & assessments	59,370	64,395	2,090,663	2,126,366	3,152,966	4,836,963
Other miscellaneous	12,026	-	4,794	4,461	1,899,903	72,160
Total non-CTF sources	166,560	1,404,055	2,221,145	2,130,827	140,340,790	50,804,857
Total sources	30,595,796	31,725,012	2,221,145	2,130,827	5,299,630,277	4,556,888,886
Net transfers in/(out)	357,459	407,778	(25,576)	(23,512)	21,991,136	4,206,243
Total funds available for use	\$ 30,953,255	\$ 32,132,790	\$ 2,195,569	\$ 2,107,315	\$ 5,321,621,414	\$ 4,561,095,129
Uses:						
Expenses (net of refunds):						
Administrative & support services	\$ 1,681,624	\$ 1,514,988	\$ -	\$ -	\$ 276,098,694	\$ 273,828,651
Air transportation programs	4,285,797	4,166,029	-	-	4,285,797	4,166,029
Capital Outlay projects	-	-	-	-	9,066,862	9,159,017
Environmental monitoring & evaluation	-	-	-	-	8,018,020	10,771,735
Financial assistance to localities	22,655,923	26,728,240	-	-	400,287,382	388,605,192
Ground transportation regulation	-	-	-	-	144,339,606	137,639,175
Ground transportation planning	-	-	-	-	53,161,345	37,283,893
Ground transportation safety	-	-	-	-	6,346,086	6,085,349
Highway acquisition & construction	-	-	-	-	1,389,447,579	1,245,790,062
Highway maintenance	-	-	-	-	1,770,241,954	1,407,468,993
Mass transit assistance	-	-	-	-	309,167,536	302,164,370
Debt service, principal & interest	-	-	-	-	261,538,745	291,033,776
Rail assistance	-	-	-	-	42,680,842	18,248,705
Regulation of professions & occupations	-	-	2,006,200	1,931,542	2,006,200	1,931,542
Toll facility operations	-	-	-	-	19,969,229	18,680,908
Total uses	\$ 28,623,344	\$ 32,409,257	\$ 2,006,200	\$ 1,931,542	\$ 4,696,655,875	\$ 4,152,857,395