

**AGENCIES OF THE SECRETARY
OF
TRANSPORTATION**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2010**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

This report discusses the financial activities and performance of the agencies of the Secretary of Transportation, which are the:

- Department of Motor Vehicles (Motor Vehicles)
- Department of Transportation (Transportation)
- Department of Rail and Public Transportation (Rail and Public Transportation)
- Department of Aviation (Aviation)
- Motor Vehicle Dealer Board (Dealer Board)
- Board of Towing and Recovery Operations (Towing and Recovery Board)
- Virginia Port Authority (Port Authority)

Together, these seven agencies 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 was to evaluate the accuracy of the agencies of the Secretary of Transportation's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2010 and test compliance for the Statewide Single Audit. Our audit for the year ended June 30, 2010, 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; and
- certain matters involving internal controls that we consider significant deficiencies requiring management's attention and corrective action. These matters are included in the section entitled "Internal Control and Compliance Findings and Recommendations" starting on page one.

Since the Commonwealth's Comprehensive Annual Financial Report and Statewide Single Audit issued on December 14, 2010, provide detailed financial information and disclosures about the Commonwealth Transportation Fund and the other funds supporting the Secretary of Transportation agencies, we provide only summary financial information here. We refer you to those reports found on our website, www.apa.virginia.gov, for additional information.

Further, the Port Authority issues a separate Comprehensive Annual Financial Report on which we provide an independent auditor's opinion and a separate Independent Auditor's Report on Internal Control, Compliance and Other Matters. We refer you to those reports issued on October 29, 2010, also found on our website, for additional information about the Port Authority.

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INTERNAL CONTROL AND COMPLIANCE
FINDINGS AND RECOMMENDATIONS

DEPARTMENT OF MOTOR VEHICLES

Enhance Information System Security Program

The Department of Motor Vehicles (Motor Vehicles) has not adequately implemented their information system security policies, including disaster recovery activities, security awareness training, and logical access controls to sensitive data. In some cases these weaknesses also reflect instances of non-compliance with Commonwealth IT security standards.

Since our recommendations include descriptions of security mechanisms, which are exempt from public disclosure by the Code of Virginia, management received a separate document containing a detailed description of our recommendation. The following is a public summary.

- **Information Security Programs** Motor Vehicles' security policies lack consistency across the organization and can vary by section or system. These inconsistencies can result in conflicting guidance to staff and impairs implementation and enforcement of a specific policy or procedure. We also noted that in one instance a policy has remained unapproved by management for over one year.

We recommend that Motor Vehicles, to the extent possible, eliminate any redundant or conflicting security program policies across its organization. Further, as Motor Vehicles makes changes to its IT environment and the Commonwealth makes updates to its security standards, there should be an ongoing assessment process to update these documents. Finally, Motor Vehicles should ensure that management promptly and formally approves these policies to ensure their enforceability.

- **Logical Access** Motor Vehicles does not follow their established procedures for granting access to their systems. Further, certain aspects of their process are not in compliance with the Commonwealth's security standards.

We recommend that Motor Vehicles review their logical access procedures, ensuring their compliance with Commonwealth security standards; formally approve those procedures; and ensure staff execute the process in accordance with the approved procedures.

- **Security Training** Motor Vehicles does not actively monitor that all staff and contractors receive annual security awareness training and ensure that their training records track this training. Further, Motor Vehicles does not have role based IT security training programs for employees and contractors who design, manage, administer, and operate IT systems and applications. The Commonwealth's security standard requires that all employees and contractors undergo annual IT security and security awareness training to provide them with guidance on how to best protect sensitive data.

We recommend that Motor Vehicles ensure that the Information Security Officer actively monitors whether all staff and contractors receive annual security awareness training. We further recommend Motor Vehicles develop and implement a role-based security awareness and training program that gives specialized training to agency resources responsible for key areas of the information security program including, such as those individuals, who have responsibility for the COOP and Disaster Recovery team, Incident Response team, and Application Design and Maintenance team.

- Disaster Recovery and Contingency Planning Motor Vehicles' Disaster Recovery and Contingency Planning documents do not adequately address the responses or responsibilities required for one of its mission critical systems. A third party service provider created the documentation provided to the auditor and this documentation does not address the Commonwealth's standards for disaster recovery. Without well documented plans, recovery efforts may not meet business needs, thus negatively impacting the ability to carry out their mission, as well as citizens' confidence in their operations.

We recommend that Motor Vehicles use their recently updated business impact analysis and risk assessments to drive a review, assessment, and update to their entire disaster recovery and continuity of operations plan.

DEPARTMENT OF TRANSPORTATION

Improve Contingency and Disaster Recovery Plan Compliance

To ensure that contingency plans consider all essential business functions, the Department of Emergency Management guidelines recommend, and the Commonwealth's security standards require, that agencies create their contingency plans based on the information within the business impact analysis, building up from this document. This approach prevents a departmental approach to evaluating risk in an agency, and encourages evaluating and prioritizing risks on an agency-wide basis.

Transportation does not consistently link essential business functions across its risk management and contingency documents. Additionally, Transportation does not have a disaster recovery plan that fully addresses the Department of Emergency Management guidelines or the Commonwealth's security standard. These risks may impair Transportation's ability to restore business operations to a normal state in a timely manner in the event of a disaster.

Transportation's contingency plan for each division undergoes an annual review and update, and has a comprehensive list of essential business functions as well as sub-functions; however, Transportation does not use their business impact analysis to develop this list. This disconnect results from Transportation hiring a vendor to complete their business impact analysis and a reluctance on the part of Transportation to change this document. Rather, when Transportation identifies the need for a change, those changes occur outside of the business impact analysis.

Further, we found several instances where the master recovery document contains placeholders instead of specific recovery procedures. These recovery procedures should describe IT activities, processes, procedures, and resources required to restore essential business functions.

We recommend that Transportation ensure their new business impact analysis under development identifies all business functions across all divisions. After completion, Transportation should incorporate the essential business functions defined in the business impact analysis into the continuity of operations plan. Transportation should also reconsider the appropriateness of treating the business impact analysis as a static document given the requirements of the Emergency Management guidelines and the Commonwealth's security standard.

Finally, Transportation should update its disaster recovery plan to include the proper processes and procedures that will allow essential IT system recovery in case of a disaster. As Transportation relies on the Virginia Information Technologies Agency (VITA) to provide, as well as, perform the majority of these restoration procedures and only retains responsibility for the final few steps that ensure system data was properly loaded, Transportation should ensure that their disaster recovery plan acknowledges the resources and responsibilities that fall within VITA.

TRANSPORTATION AGENCY OVERVIEW

The agencies of the Secretary of Transportation oversee land, air, and water transportation in the Commonwealth. They employed over 8,500 people and spent a combined \$3.6 billion on transportation in fiscal year 2010. 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 financial highlights for the agencies under the Secretary of Transportation as well as a brief description for each agency during fiscal year 2010. Additional financial information about these agencies as well as the Commonwealth Transportation Fund is in the Commonwealth's Comprehensive Annual Financial Report and Statewide Single Audit Report. Further information about the Port Authority is also in its Comprehensive Annual Financial Report. All reports may be accessed through our website, www.apa.virginia.gov.

SOURCE AND USE OF FUNDING

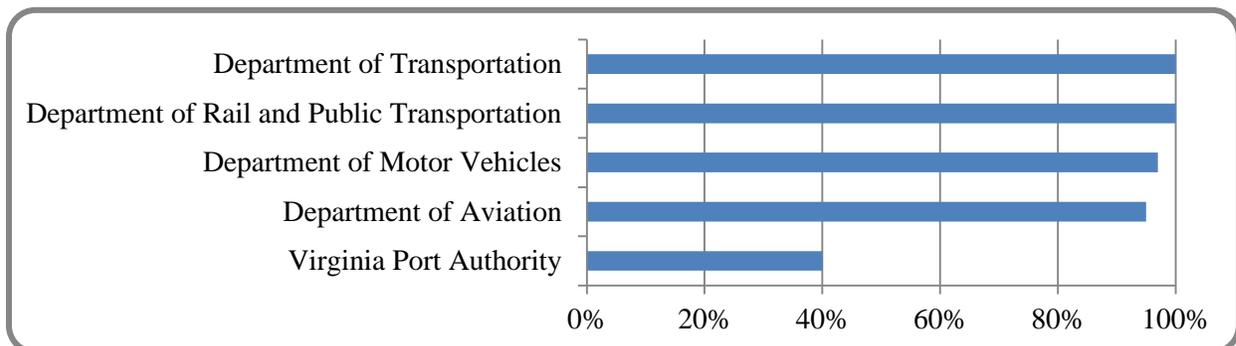
Commonwealth Transportation Fund

The primary source of funding for the majority of the Transportation agencies comes from the Commonwealth Transportation Fund (CTF), a compilation of special funds dedicated to support the various modes of transportation. Appendix A provides a visual representation of the various funds designated as a part of the CTF and the flow of revenues into them and the required use of those funds where set out by the Code of Virginia.

The CTF supports 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, as reflected in Chart A below.

**Percentage of Agency Revenues
from the Commonwealth Transportation Fund in Fiscal Year 2010**

Chart A



Source: Commonwealth Accounting and Reporting System

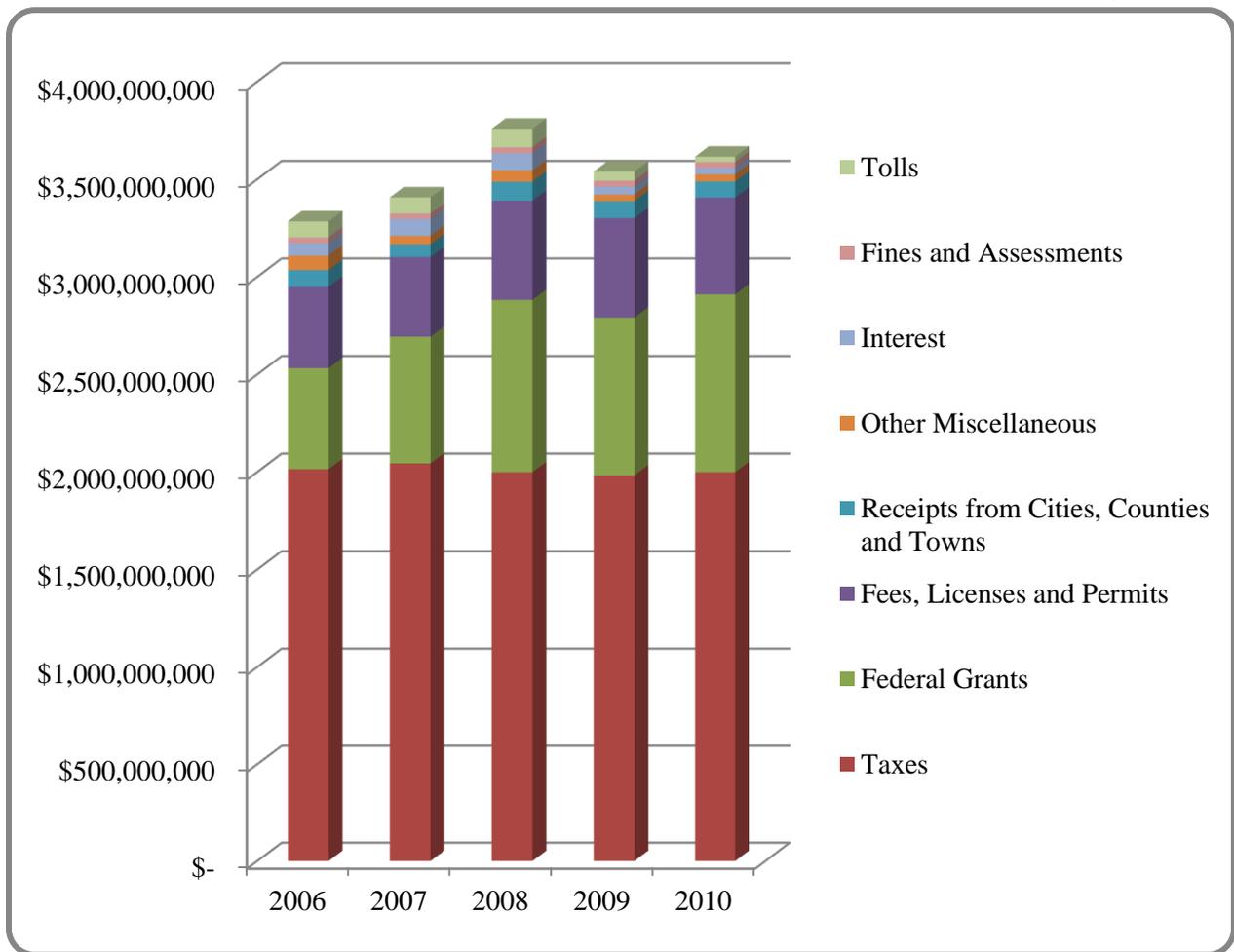
Three main types of revenue sources provide 90 percent of the funding for the CTF:

- 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 2010, these and the remaining non-debt related CTF sources generated \$3.6 billion in transportation funding. Chart B below 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 B



*Other miscellaneous revenues include rent, donations, and sale of services, property, and recycling.

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

Source: Commonwealth Accounting and Reporting System

Based on the chart above, tax related collections represent the largest source and have remained relatively stable during this period, while the federal grants received within the CTF have increased.

The remaining funding for these and the other agencies of the Secretary of Transportation can be attributable to various special revenues and federal grant awards collected directly by those agencies.

For example, in addition to its CTF dedicated revenues, the Port Authority's largest revenue source comes from the operating revenues of its component unit, the Virginia International Terminals. On the other hand, the Dealer and Towing and Recovery Boards, who receive no funding from the CTF, realize their revenues from the licensing and other fees the Code of Virginia authorizes them to assess in the oversight of their respective professions.

Appendix B provides a summary of the sources and uses of funds by the agencies of the Secretary of Transportation for the years ending June 30, 2009 and 2010, broken down by CTF and non-CTF sources, with one exception. Since the Port Authority is a component unit of the Commonwealth, we have not included their financial activity within Appendix B. Additional financial information about the Port Authority's Comprehensive Annual Financial Report can be found on our website, www.apa.virginia.gov

Use of Funds

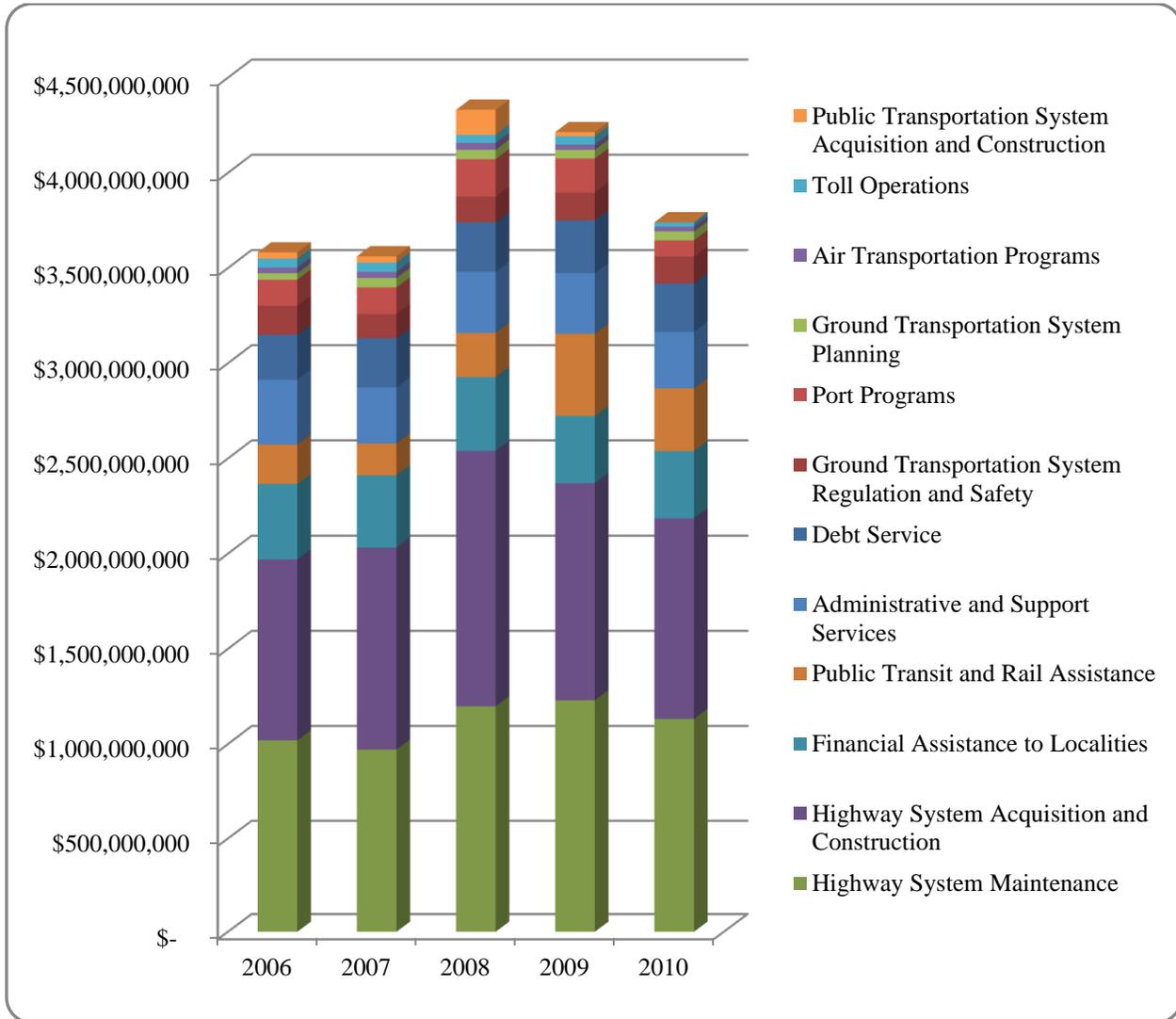
In fiscal year 2010, the agencies under the Secretary of Transportation, spent over \$3.7 billion, or almost 10 percent of the Commonwealth's annual budget. Maintenance and construction of highways are perpetually the largest uses of these funds.

However, as Chart C below reveals, in recent years larger percentages of transportation resources have gone to highway maintenance. Transportation's 2009 Biennial Report on the Condition of and Investment Needed to Maintain and Operate the Existing Surface Transportation Infrastructure for FY 2011 and FY 2012 highlights the need for continued growth in maintenance funding. The report estimates the annual investment needed to maintain and operate the Transportation network for the 2011 – 2012 biennium at \$3.784 billion, with a funding shortfall between those needs and available resources of approximately \$923 million. Every year Transportation does not address maintenance needs there is created a longer list of maintenance activities for the future. Due to the nature of maintenance activities, these costs tend to grow exponentially rather than linearly, as the longer Transportation delays repairs and maintenance activities the more expensive these issues can become.

Chart C also shows public transit and rail assistance growing over the same period. This reflects the increased attention alternative forms of transportation are receiving from policy makers at the state and federal levels.

Five-year Trend of the Use of Funds

Chart C



*The legend order mirrors the order of the items presented in this Chart from top to bottom.
 Source: Commonwealth Accounting and Reporting System

Use of Debt

To meet the Commonwealth’s growing transportation system construction needs, the General Assembly has authorized the use of tax-supported debt as a means for funding items. 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.

The Commonwealth plans to use \$1.2 billion or 38 percent of this authorization for rail and transit projects, including Metro capital needs and Dulles Metrorail Project obligations. The balance of the authorization will provide cash-flow for existing projects within the Commonwealth’s Six-

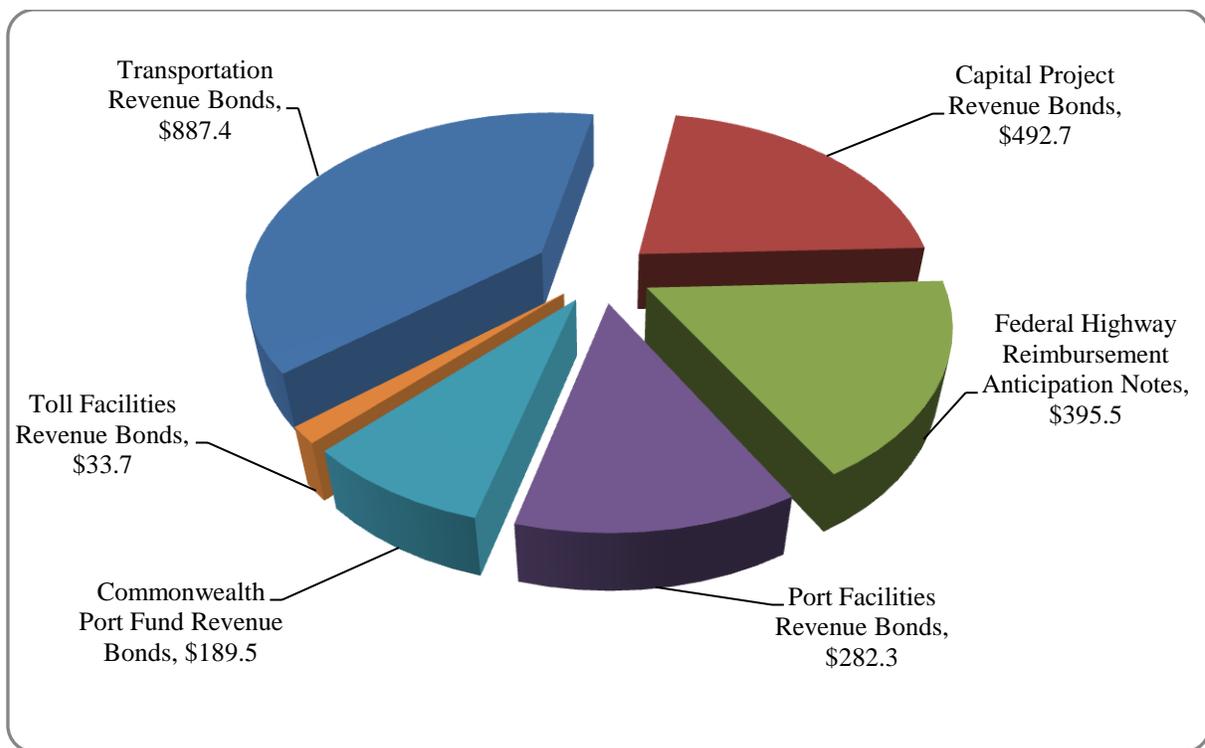
Year Improvement Program without specific projects designation, with prioritization given to fulfilling federal and revenue sharing matching requirements as set out in §33.1-23.4:01.3 of the Code of Virginia.

The Commonwealth has scheduled the sale of Transportation Capital Project Revenue Bonds through 2028, with final retirement payments in 2053. The first issuances of this authorization of \$492 million occurred in May 2010. Based on this schedule, the final retirement payment will not occur until 2053. However, the General Assembly is currently considering proposals to speed up these issuances, which would impact the final retirement payment date, as well as, the annual debt service payments required to support the Transportation bonds.

Chart D below reflects the breakdown of the 2010 Transportation Agency Bonds Payable Outstanding as of June 30, 2010. The outstanding bonds are supported in part or in whole by the CTF, with the exception of the Port Facilities Revenue Bonds, which are payable from the net revenues of the Port Authority, and the Toll Facilities Revenue Bonds, which are payable from the revenues of the toll facilities.

Transportation Agency Bonds Payable Outstanding as of June 30, 2010
(dollars in millions)

Chart D



Source: Commonwealth Accounting and Reporting System

Debt service payments (principal and interest) for these outstanding bonds will remain close to the 2010 levels through 2025 should the remaining Capital Project Revenue Bond authorizations be released as planned.

TRANSPORTATION AGENCY HIGHLIGHTS

Department of Motor Vehicles

Motor Vehicles administers the Commonwealth's motor vehicle and motor vehicle tax-related laws. This includes, but is not limited to, driver licensing; vehicle registration; disabled parking placards; hauling permits; motor carrier permits and inspections; and record services. Motor Vehicles also collects commercial fuels tax on behalf of the Commonwealth. To support these and other services, Motor Vehicles maintains numerous customer service centers throughout the Commonwealth as well as an internet portal.

The other Transportation agencies use all but a small portion of the revenues collected by Motor Vehicles to fund their various transportation initiatives. Motor Vehicles retains a certain percentage of the funds they collect to support their operations depending on the revenue collected. In fiscal year 2010, Motor Vehicles retained \$203.0 million of the \$1.5 billion they collected to offset their \$198.8 million in operational expenses. Personnel costs and contractual services make up the majority (85 percent) of Motor Vehicles operational expenses.

Customer Services System Integrated Systems Redesign

Motor Vehicles has been working since 2005 to replace their aging Citizen Services System, which houses vehicle and driver data for every citizen of the Commonwealth, and supports their revenue collection activities. They have coined the name CSI for their new system, which reflects their goals for the initiative: Customer-Centric; Secure, Service-Oriented, State-of-the-art; and Intelligent.

After terminating their contract on October 2, 2009, with the original vendor selected to perform the detailed design, development, and implementation activities for the project, Motor Vehicles restructured their approach to the project. Motor Vehicles spent the early part of calendar 2010 redefining the conceptual architecture for the project and refining the system requirements to be included in a new Request for Proposal (RFP) for a development and implementation partner. In February 2010, they released the new RFP. Motor Vehicles spent the summer of 2010 analyzing the four responses they received and ultimately selected Accenture.

Motor Vehicles signed a \$36 million contract with Accenture on November 15, 2010, and started the detailed design phase of the project. Motor Vehicles budgeted the total cost for the entire project, including internal costs, hardware and software not being provided by Accenture, at just over \$69 million. They anticipate rolling the system out in three stages, with the final rollout done by July 2013.

Department of Transportation

The Commonwealth has the third largest state-maintained highway systems in the United States, behind Texas and North Carolina. Transportation manages almost 58,000 miles of interstate,

primary, and secondary roads and provides funding to support the maintenance of over 10,000 miles of urban streets. Transportation also maintains more than 12,600 bridges, four underwater tunnels, two mountain tunnels, one toll road, one toll bridge, four ferry services, and a number of rest areas and commuter parking lots.

Highway maintenance and operations represent approximately 49 percent of Transportation's almost \$3.4 billion budget, followed by approximately 31 percent for highway systems construction. The remaining portions of the budget address the needs and requirements of debt service, provide support to other agencies or government entities, and cover administrative costs of the agency.

To reduce costs and streamline operations, over the past decade Transportation cut its employment levels significantly from over 10,300 employees at June 30, 2001, to less than 7,000 employees at June 30, 2010. This represents the lowest level since 1965; however, Transportation remains one of the largest agencies in the Commonwealth.

Financial Management System Replacement

During fiscal year 2010 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, with go-live scheduled for the Part 1 modules for July 1, 2011. Part 2 of the project focuses on implementing the base application's core modules for the Department of Accounts and is planned for completion by June 2012. The Cardinal Project Team estimates the system will cost about \$58 million, including software and expert systems implementation services.

Cardinal represents one of the first major implementations affected by the Commonwealth's recently defined data standards. The Cardinal project team is working with the Department of General Services to create an interface so Cardinal can use eVA vendor information to populate its vendor tables and with the Department of Human Resources to interface Cardinal with the Commonwealth's human resource systems. Transportation and the Department of Accounts are coordinating their efforts to develop Chart of Account field values that will leverage the expanded functionality offered by Cardinal. The Department of Accounts plans to implement the "order to pay" data standard after go-live due to concerns that the complexity of this standard will negatively affect the project schedule and budget.

While currently on schedule, the project teams believes that the schedule is very aggressive and could affect the go-live date for Part 1 due to limited contingency to absorb project delays. If Transportation considers a postponement imminent, the project manager will seek the support of the Cardinal Steering Committee and revise the schedule accordingly.

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. 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 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-five percent of Rail and Public Transportation's funding provides support for public transit and rail assistance for local and regional projects. Rail and Public Transportation's operating and administrative expenses use a little more than one percent of the 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. It 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 2010, Aviation used 82 percent of their funding to provide financial assistance to local airports, 13 percent on delivery of services to clients, and less than 5 percent to cover administrative expenses.

Virginia Port Authority

The Port Authority is the Commonwealth's agency for international transportation and maritime commerce. The Port Authority's major activities are promoting Virginia's ports throughout the world; developing water transportation facilities; maintaining ports, facilities, and services; and providing security services. To deliver these services, the Port Authority has offices in five cities in the United States and five foreign countries and owns four general cargo terminals in Virginia that enable them to foster and stimulate the commerce of the Commonwealth's ports. The Commonwealth Transportation Board oversees the allocations to the Commonwealth Port Fund, while a Board of Commissioners composed of 12 members manages the activities of the Port Authority.

Motor Vehicle Dealer Board

The Dealer Board regulates motor vehicle dealers and 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 invoke disciplinary actions including, but not limited to, revoking licenses or certifications and assessing civil penalties for regulatory violations. In fiscal year 2010, personnel costs represented 79 percent of the Dealer Boards total expenses.

Board of Towing and Recovery Operations

The Towing and Recovery Board regulates the towing and recovery operation profession in the Commonwealth. The Towing and Recovery Board establishes the qualifications, provides testing, and grants licensure to individuals to engage in the towing and recovery operation business in the Commonwealth. They levy and collect fees for licensure and renewal in order to cover its expenses. The Towing and Recovery Board may also revoke, suspend, or fail to renew a license for violation of regulations. Effective July 1, 2010, the Towing and Recovery Board moved under the Secretary of Public Safety; however, Motor Vehicles will continue to provide it administrative support services.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 14, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
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, for the year ended June 30, 2010. 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 the Agencies of the Secretary of Transportation's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2010 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 on the Commonwealth Accounting and Reporting System, the agencies' other accounting systems, 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 where applicable reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The agencies' management 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 materiality and control 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.

- Accounts receivable and related collection controls
- Accounts payable and related disbursement controls
- Payroll expenses
- Federal grant revenues and expenses
- Contract management
- Fixed asset management
- Information security
- General system controls
- Financial assistance
- Financial reporting controls

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, inspection of documents, records, contracts, reconciliations, and observation of the agencies' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses. We confirmed agency cash balances with outside parties.

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 other agency accounting systems, as well as 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 we consider significant deficiencies requiring management's attention and corrective action; these are included in the section entitled "Internal Control and Compliance 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 report.

Exit Conference and Report Distribution

We discussed this report with management at the Agencies of the Secretary of Transportation between January 31, 2010 and February 7, 2010. Management's responses to the findings identified in our audit are included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

AUDITOR OF PUBLIC ACCOUNTS

JBS/clj



COMMONWEALTH of VIRGINIA

Department of Motor Vehicles

2300 West Broad Street

Richard D. Holcomb
Commissioner

Post Office Box 27412
Richmond, VA 23269-0001

February 7, 2011

Mr. Walter J. Kucharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23219

Dear Walt:

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, 2010. The corrective action plan we are proposing in response to your finding is lengthy and has been provided to your staff. DMV has made progress on mitigating and/or remediating the issues identified in the audit.

Please let me know if you have any questions or concerns.

Sincerely,

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

Richard D. Holcomb

RDH:dm



COMMONWEALTH of VIRGINIA

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

Gregory A. Whirley
Commissioner

January 20, 2010

Mr. Walker J. Kucharski
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

Thank you for the opportunity to comment on the Commonwealth Transportation Fund audit for Fiscal Year 2010. The Department has strived to maintain its good record of effective financial operations and controls, and I am very pleased that there are no significant findings and no financial internal control findings.

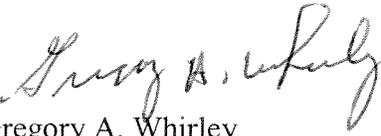
With respect to the comment on the Department's business impact analysis, VDOT's Operations and Security Division is currently in the process of updating the Agency's Business Impact Analysis (BIA). This effort will identify all business functions across all VDOT divisions and those functions that are essential to the continued operation of the Agency. Upon completion of the BIA by June 30, 2011, the agency's Continuity of Operations (COOP) Plan will be updated to reflect this list of essential business functions, as per generally accepted best practices in support of emergency management guidelines and security standards. On an ongoing basis, VDOT's Operations and Security Division and Information Technology Division will coordinate updates to the agency's BIA. As VDOT annually updates its COOP, it will continue to incorporate any relevant changes related to VDOT's essential business functions.

Regarding the Department's disaster recovery plan, VDOT will create a disaster recovery plan that acknowledges the resources and responsibilities that fall within VITA as well as the procedures necessary for the recovery of essential IT systems in case of a disaster. This update will be completed by the Information Technology Division by June 30, 2011.

Mr. Walker J. Kucharski
January 20, 2011
Page Two

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

Sincerely,



Gregory A. Whirley

cc: The Honorable Sean Connaughton
Chief Deputy Commissioner
Executive Staff

OFFICIALS

As of June 30, 2010

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

Board of Towing and Recovery Operations

J. Marc Copeland, Executive Director

Virginia Port Authority

Jerry A. Bridges, Executive Director

COMMONWEALTH TRANSPORTATION BOARD

Sean Connaughton, Chairman

Gregory A. Whirley, Sr., Vice Chairman

Jim D. Bowie

James A. Davis

Thelma Drake

Hollis D. Ellis

James L. Keen

J. Douglas Koelemay

Aubrey L. Layne, Jr.

Dana M. Martin

Gerald P. McCarthy

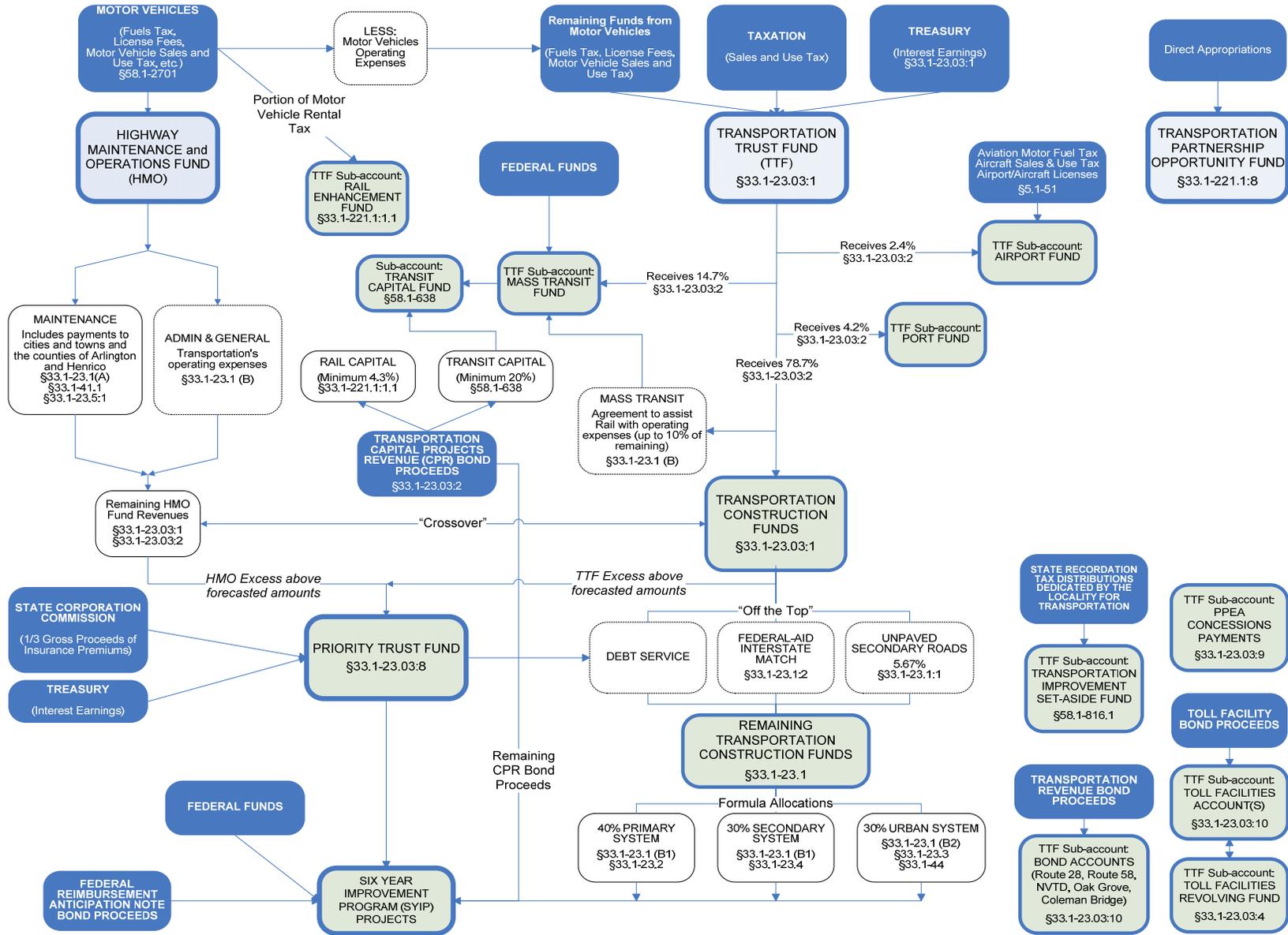
Mark J. Peake

Peter B. Schwartz

Cord A. Sterling

Commonwealth Transportation Fund Flow of Resources

Appendix A



AGENCIES OF THE SECRETARY OF TRANSPORTATION
SUMMARY OF FINANCIAL INFORMATION
SOURCES AND USES
Cash Basis, For Fiscal Years 2010 and 2009

APPENDIX B

Sources:	Department of Motor Vehicles		Department of Transportation		Department of Rail and Public Transportation		Virginia Port Authority		Department of Aviation		Motor Vehicle Dealer Board		Board of Towing and Recovery Operations		Total Agencies of the Secretary of Transportation	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
CTF Sources (net of refunds):																
Taxes	\$ 1,012,091,660	\$ 1,000,014,137	\$ 767,182,399	\$ 768,591,865	\$ 157,079,150	\$ 157,788,229	\$ 31,827,515	\$ 32,044,863	\$ 30,418,062	\$ 26,507,161	\$ -	\$ -	\$ -	\$ -	\$ 1,998,598,787	\$ 1,984,946,255
Federal grants	-	-	877,929,190	775,242,984	34,465,637	34,183,682	-	-	-	-	-	-	-	-	912,394,827	809,426,666
Fees, licenses & permits	453,481,350	465,077,906	36,721,084	34,582,864	3,045,851	3,159,076	870,243	902,593	512,918	530,624	-	-	-	-	494,631,446	504,253,064
Receipts from cities, counties & towns	-	-	82,267,839	87,498,052	-	-	-	-	-	-	-	-	-	-	82,267,839	87,498,052
Other miscellaneous	355,143	361,955	35,070,152	31,492,481	597,760	626,799	-	558	1,450,836	685,204	-	-	-	-	37,473,890	33,166,998
Interest	383,251	244,082	29,578,228	35,170,880	1,952,478	3,699,034	232,650	257,621	676,888	660,836	-	-	-	-	32,823,495	40,032,455
Fines & assessments	28,479,542	29,918,982	1,456,112	1,319,765	6,318	7,127	1,805	2,036	1,032	1,164	-	-	-	-	29,944,809	31,249,074
Tolls	-	-	27,591,449	48,565,980	-	-	-	-	-	-	-	-	-	-	27,591,449	48,565,980
Revenue bond proceeds	-	-	573,868,960	-	-	-	-	-	-	-	-	-	-	-	573,868,960	-
Total CTF sources	1,494,790,946	1,495,617,063	2,431,665,412	1,782,464,871	197,147,194	199,463,948	32,932,214	33,207,671	33,059,736	28,384,990	-	-	-	-	4,189,595,502	3,539,138,543
Non-CTF Sources (net of refunds):																
General fund appropriations	-	-	56,641,353	333,792,414	(476,858)	-	-	-	36,622	35,584	-	-	-	-	56,201,117	333,827,998
Port operations	-	-	-	-	-	-	45,410,637	99,802,536	-	-	-	-	-	-	45,410,637	99,802,536
Federal grants	(40,128)	(8,345)	-	-	-	-	3,831,683	15,720,236	1,571,508	604,925	-	-	-	-	5,363,063	16,316,816
Taxes	3,039,489	(1,312,405)	-	-	-	-	-	-	-	-	112,182	118,777	-	-	3,151,671	(1,193,628)
Fees, licenses, permits, fines & assessments	227,837	2,369,709	-	-	-	-	-	-	65,130	67,935	1,991,381	1,982,593	775,935	689,680	3,060,283	5,109,917
Other miscellaneous	132,908	21,621	-	-	-	-	2,629	34,815	-	1,800	42,456	29,985	66	100,921	178,059	189,142
Total non-CTF sources	3,360,106	1,070,580	56,641,353	333,792,414	(476,858)	-	49,244,949	115,557,587	1,673,260	710,244	2,146,019	2,131,356	776,001	790,601	113,364,830	454,052,781
Total sources	1,498,151,052	1,496,687,642	2,488,306,765	2,116,257,285	196,670,336	199,463,948	82,177,163	148,765,258	34,732,996	29,095,234	2,146,019	2,131,356	776,001	790,601	4,302,960,332	3,993,191,324
Net transfers in/(out)	(1,295,129,405)	(1,297,231,753)	1,064,491,667	944,453,009	197,628,582	143,546,277	(18,160,118)	(17,790,627)	(2,218,332)	(87,168)	(839,811)	(17,944)	(3,550)	-	(54,230,968)	(227,128,206)
Total funds available for use	\$ 203,021,646	\$ 199,455,889	\$ 3,552,798,432	\$ 3,060,710,294	\$ 394,298,917	\$ 343,010,225	\$ 64,017,045	\$ 130,974,632	\$ 32,514,664	\$ 29,008,066	\$ 1,306,208	\$ 2,113,412	\$ 772,451	\$ 790,601	\$ 4,248,729,364	\$ 3,766,063,117
Uses:																
Expenses (net of refunds):																
Administrative & support services	\$ 57,619,344	\$ 59,345,179	\$ 211,391,134	\$ 219,706,731	\$ 4,404,698	\$ 4,764,128	\$ 15,417,534	\$ 15,524,666	\$ 1,289,877	\$ 1,532,386	\$ -	\$ -	\$ -	\$ -	\$ 290,122,586	\$ 300,873,089
Air transportation programs	-	-	-	-	-	-	-	-	25,689,085	27,402,798	-	-	-	-	25,689,085	27,402,798
Capital Outlay projects	365,526	1,889,435	4,374,355	12,799,604	-	-	16,972,471	98,144,112	-	-	-	-	-	-	21,712,351	112,833,151
Environmental monitoring & evaluation	-	-	7,637,018	8,895,046	-	-	-	-	-	-	-	-	-	-	7,637,018	8,895,046
Economic development activities	-	-	-	-	-	-	4,753,602	6,266,030	-	-	-	-	-	-	4,753,602	6,266,030
Financial assistance to localities	-	37,657,715	353,597,717	353,105,908	-	-	-	-	-	-	-	-	-	-	353,597,717	390,763,623
Ground transportation regulation	135,751,545	139,139,316	-	-	-	-	-	-	-	-	-	-	-	-	135,751,545	139,139,316
Ground transportation planning	-	-	31,569,928	31,786,675	6,908,836	5,327,453	-	-	-	-	-	-	-	-	38,478,764	37,114,128
Ground transportation safety	5,092,870	13,906,020	-	-	-	-	-	-	-	-	-	-	-	-	5,092,870	13,906,020
Highway acquisition & construction	-	-	1,053,675,079	1,139,368,032	-	-	-	-	-	-	-	-	-	-	1,053,675,079	1,139,368,032
Highway maintenance	-	-	1,131,726,910	1,230,057,426	-	-	-	-	-	-	-	-	-	-	1,131,726,910	1,230,057,426
Mass transit assistance	-	-	-	-	276,759,540	383,498,125	-	-	-	-	-	-	-	-	276,759,540	383,498,125
Debt service, principal & interest	-	-	253,746,815	277,512,600	-	-	-	-	286,382	-	-	-	-	-	254,033,196	277,512,600
Port programs	-	-	-	-	-	-	64,411,700	74,380,467	-	-	-	-	-	-	64,411,700	74,380,467
Public transportation acquisition & construction	-	-	-	-	-	21,730,788	-	-	-	-	-	-	-	-	21,730,788	-
Rail assistance	-	-	-	-	51,757,475	48,967,629	-	-	-	-	-	-	-	-	51,757,475	48,967,629
Regulation of professions & occupations	-	-	-	-	-	-	-	-	-	-	1,849,505	1,900,740	484,284	618,432	2,333,790	2,519,172
Toll facility operations	-	-	22,624,103	44,268,212	-	-	-	-	-	-	-	-	-	-	22,624,103	44,268,212
Total uses	\$ 198,829,285	\$ 251,937,665	\$ 3,070,343,059	\$ 3,317,500,235	\$ 339,830,549	\$ 464,288,122	\$ 101,555,307	\$ 194,315,274	\$ 27,265,343	\$ 28,935,184	\$ 1,849,505	\$ 1,900,740	\$ 484,284	\$ 618,432	\$ 3,740,157,332	\$ 4,259,495,653

Source: Commonwealth Accounting and Reporting System

*For Motor Vehicles CTF Sources as presented above include sources collected by Motor Vehicles on behalf of the other agencies, these amounts are then transferred to those other agencies leaving the remaining