

AUDIT SUMMARY

Our audit of the Department of Rail and Public Transportation for the year ended June 30, 1998, found:

- internal control matters that we consider reportable conditions;
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material instances of noncompliance with applicable laws and regulations required to be reported under Government Auditing Standards; and
- adequate implementation of corrective action on prior audit findings, except as reported in the finding entitled “Properly Procure Goods and Services.”

Our audit findings include issues that we explain in detail in the section entitled “Internal Control and Compliance Findings and Recommendations.”

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AGENCY OFFICIALS

January 21, 1999

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

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Rail and Public Transportation** for the year ended June 30, 1998. We conducted our audit in accordance with generally accepted government auditing standards.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to review the Department's accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, adequacy of the internal control structure, and compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed other such auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenue and Allocations
Expenditures

Federal Grant Management
Accounts Payable

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's policies and procedures 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.

The Department's management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on the internal control structure or on overall compliance with laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control structure to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. These reportable conditions are discussed in the section entitled, "Internal Control and Compliance Findings and Recommendations." We believe none of the reportable conditions are material weaknesses.

The results of our tests disclosed no material instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of noncompliance that is described in the section entitled, "Internal Control and Compliance Findings and Recommendations."

The Department has not taken adequate corrective action with respect to the previously reported finding entitled "Properly Procure Goods and Services." Accordingly, we included this issue in the section entitled "Internal Control and Compliance Findings and Recommendations." The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

EXIT CONFERENCE

We discussed this report with management on February 19, 1999.

AUDITOR OF PUBLIC ACCOUNTS

DBC:aom
aom:46

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Properly Procure Goods and Services

Rail and Public Transportation has not made adequate improvements to their internal controls and compliance with procurement laws and regulations. A prior year finding cited improperly procured goods and services. During 1998, the Division of Purchase and Supply (DPS) of the Department of General Services performed a follow-up to their 1997 review of Rail and Public Transportation's contract management function. The October 19, 1998 report noted several instances in which Rail and Public Transportation did not follow procurement laws and regulations or had poor internal controls. The following are examples noted in the DPS report:

- No written assignment of contract administrator
- Incomplete contract files
- Internal purchasing procedures manual still in draft form
- Inadequate training for employees engaging in procurements
- No log maintained for purchases made with the small purchase charge card

Rail and Public Transportation submitted a corrective action plan to DPS in November 1998. The Department corrected two of the five items noted above by January 1999.

In addition to DPS's findings, Rail and Public Transportation incorrectly used an existing temporary service contract belonging to the Department of Transportation since their separation from the Department of Transportation in 1992 through June 1998. Rail and Public Transportation prohibited any future use of the contract in October 1998, when they discovered they were not part of a cooperative procurement.

Rail and Public Transportation should continue implementing their corrective action plan for procurement and overall contract management. Inadequate corrective action could result in the loss of delegated purchasing authority.

FINANCIAL HIGHLIGHTS

The Department of Rail and Public Transportation reports to the Secretary of Transportation and the Commonwealth Transportation Board, which provides policy oversight. Rail and Public Transportation's primary mission is to promote, establish, and retain passenger and freight rail transportation services in the Commonwealth.

Commonwealth Mass Transit Fund

Rail and Public Transportation received 8.4 percent of the Transportation Trust Funds, totaling \$53.9 million in fiscal year 1998. In addition, Rail and Public Transportation received a \$37.5 million allocation of the Highway Maintenance and Operating Fund and supplemental allocations totaling \$6.5 million. The Transportation Trust Funds allocation increases to 14.5 percent for fiscal year 1999 and to 14.7 percent for fiscal year 2000. Rail and Public Transportation administers its Transportation Trust Fund allocations through programs funded by the agency's Mass Transit Fund. The Transportation Trust and Highway Maintenance and Operating Funds allocations use the following allotment procedures.

- 73.5 percent for urban and non-urban areas. The allocation to each urban area uses the area's prior operating expenses as a proportion of total projected operating expenses. The total for all non-urban areas carries the weight of one urban area in the allocation. Non-urban areas' allocations consider proportionately prior expenses. Areas receive payments in advance either quarterly or monthly.
- 25 percent for capital expenses based on eligible capital expenses less any federal assistance received.
- 1.5 percent for special projects such as experimental programs, technical assistance programs, independent rideshare programs, and programs for the promotion and operation of public transportation.

Rail and Public Transportation received \$10.6 million in federal assistance from the Federal Highway, Railroad, and Transit Administrations during fiscal year 1998. Rail and Public Transportation uses the federal and state revenues to administer assistance to localities and transportation organizations for mass transportation programs, freight rail programs, and special transportation need programs for the elderly and disabled. Rail and Public Transportation's expenses totaled \$107.2 million.

Of the \$6.5 million supplemental appropriations Rail and Public Transportation received during fiscal year 1998, \$2.1 million was from the Highway Maintenance and Operating Fund and \$2 million from unobligated balances in the Industrial, Rail, & Airport Access program for state aid to local mass transit organizations. The Commonwealth Transportation Board in consultation with Rail and Public Transportation determines the basis for distribution of these funds, with consideration given to lost federal operating assistance, as well as the relative need, efficiency, and performance of local transit properties. Rail and Public Transportation spent the \$4.1 million on supplemental formula assistance for local mass transit organizations during fiscal year 1998.

Of the \$10.6 million in federal funding Rail and Public Transportation received, \$3.6 million was a grant from federal Surface Transportation Statewide Discretionary funds. The grant allocates \$1.2 million for small to medium size transit properties to purchase buses. The remaining \$2.4 million is for the Washington Metropolitan Area Transit Authority (WMATA) for priority capital outlay projects in Virginia. WMATA's \$2.4 million allocation and the City of Danville's \$136,000 allocation go straight to the transit properties

without passing through Rail and Public Transportation. Of the remaining \$1.1 million passed through Rail and Public Transportation, the transit properties expended \$76,000 during fiscal year 1998. The unexpended funds remain available until fully expended. These amounts do not reduce in any way funds that otherwise would be provided to these transit properties.

DULLES CORRIDOR PROJECT

The Commonwealth Transportation Board adopted rail as the preferred alternative in the Dulles Corridor in 1996. However, there was no identified source of state or federal funding at the time. The federal government earmarked \$86 million under the new Transportation Equity Act for the 21st Century to develop a Bus Rapid Transit project in the Dulles Corridor. The new federal legislation became effective on June 9, 1998. The state appropriated \$17 million for this purpose in fiscal year 1999.

The Secretary of Transportation created the Dulles Corridor Task Force to undertake the phased implementation of rail service in the Dulles Corridor. The Dulles Corridor project is a four-phase project to determine the most suitable means to implement an innovative bus system leading to the ultimate implementation of rail service in the Corridor.

The first two phases of the project involve express bus improvements in the Corridor:

PHASE I begins in Spring 1999 when Fairfax County will essentially double bus service in the Corridor, including new express bus service. To accomplish this, Fairfax County will increase service to the West Falls Church Metrorail Station and add a new service to Tysons Corner and the future Monroe Street parking garage. The service will take advantage of park and ride facilities currently available or under construction in the Corridor.

PHASE II of the project will further expand express bus service in both Fairfax and Loudoun Counties.

The third and fourth phases of the project call for fixed guideway improvements in the Corridor:

PHASE III will implement a Bus Rapid Transit (BRT) system to provide high quality bus service as an interim step to rail. At some locations, BRT will be built in the median, where feasible, with access from parking areas provided through pedestrian overpasses. These stations will be designed for conversion to rail stations during Phase IV. The BRT concept will maximize use of the existing facilities at Monroe Street and Wiehle Avenue by creating stations at these locations.

PHASE IV is the implementation of rail service from the West Falls Church Metrorail Station to the vicinity of Route 772 in Loudoun County. The plan includes ten stations along the rail line with service directly to Dulles International Airport and Tysons Corner.

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

Richmond, Virginia

Shirley J. Ybarra, Secretary of Transportation

Leo J. Bevon, Director