COMMONWEALTH TRANSPORTATION FUND

AGENCIES OF THE SECRETARY OF TRANSPORTATION

DECEMBER 2005

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

This report discusses the financial activities of all agencies reporting to the Secretary of Transportation. These agencies are the Departments of Transportation, Motor Vehicles, Rail and Public Transportation (DRPT), and Aviation, the Motor Vehicle Dealer Board, and the Virginia Port Authority. In addition to this report, we have issued a separate report on DRPT entitled "Department of Rail and Public Transportation, Report on Audit, For the Year Ended 2005" and a separate financial statement report for the Port Authority .

The transportation agencies oversee land, air, and water transportation in the Commonwealth. Responsibilities include collecting revenues from taxes, licenses, and vehicle registrations to fund operations; developing and maintaining highways, ports, and airports; and assisting in the development of private and local rail and mass transportation, highways, ports, and airports.

The Commonwealth Lacks a Coordinated Transportation Plan

Overall, we found the Commonwealth lacks a statement of clear objectives regarding transportation planning. Specific objectives for improving the Commonwealth's transportation system include providing a seamless transportation network throughout the state by improving interconnections between all transportation modes. Coordination between all Transportation agencies is an integral part to the future success of the Commonwealth's Transportation system.

Additionally our audit of these agencies for the year ended June 30, 2005, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;

- instances of noncompliance with applicable laws and regulations tested as required and reported under Government Auditing Standards; and

- internal control matters that require management's attention and corrective action included in the section entitled "Findings and Recommendations" that include the items listed below, which are the more significant issues.

  The Department of Motor Vehicles should improve information technology security standards and guidelines

  The Department of Transportation should obtain assurance over security and information technology infrastructure.

-TABLE OF CONTENTS-

	Pages
AUDIT SUMMARY	
OVERVIEW	1
TRANSPORTATION FUNDING	1- 4
COMMONWEALTH TRANSPORTATION FUND BUDGET DEVELOPMENT	4-12
COMMONWEALTH TRANSPORTATION FUND ALLOCATIONS	12-13
COMMONWEALTH TRANSPORTATION BOARD	13-14
DEPARTMENT OF TRANSPORTATION	14-25
DEPARTMENT OF MOTOR VEHICLES	25-28
VIRGINIA PORT AUTHORITY	28-29
DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION	30-32
DEPARTMENT OF AVIATION	32-34
MOTOR VEHICLE DEALER BOARD	34-35
FINDINGS AND RECOMMENDATIONS	36-38
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING	39-40
DEPARTMENT OF TRANSPORTATION RESPONSE	41
DEPARTMENT OF MOTOR VEHICLES RESPONSE	42-44
OFFICIALS PAGES	45-46
APPENDIX A	47-48
APPENDIX B	49-52
APPENDIX C	53
APPENDIX D	54

COMMONWEALTH TRANSPORTATION FUND

AGENCIES OF THE SECRETARY OF TRANSPORTATION

Overview

This report includes all agencies reporting to the Secretary of Transportation. These agencies are the Departments of Transportation (Transportation), Motor Vehicles (Motor Vehicles), Rail and Public Transportation (DRPT), Aviation (Aviation), the Motor Vehicle Dealer Board (Dealer Board), and the Virginia Port Authority (Port Authority). These six agencies employ over 12,000 people with an annual budget of approximately $3.4 billion.

These six transportation agencies oversee land, air, and water transportation in the Commonwealth. Their responsibilities include collecting revenues from taxes, licenses, and vehicle registrations to fund operations; developing and maintaining highways, ports, and airports; and assisting in the development of private and local rail, mass transportation, highways, airports, and ports. All these agencies report to the Secretary of Transportation. Transportation and DRPT also report to the Commonwealth Transportation Board (the Board) who provides direction and review of statewide transportation projects.

The Board is primarily responsible for locating routes, approving construction contracts, creating traffic regulations, naming highways, and administering and allocating the Commonwealth Transportation Funds (CTF). The Aviation Board and the Port Authority Board of Commissioners provide additional oversight to Aviation and Port Authority practices and allocation of funds.

The CTF is a group of special revenue funds used to account for all revenues designated for highway operations, maintenance, construction, and related activities, excluding toll facilities. The 1986 Special Session of the General Assembly established the current transportation-funding framework. This framework includes the collection and allocation of transportation revenues. The Virginia Transportation Act (VTA), enacted by the 2000 General Assembly Session, changed the allocation funding process to accelerate some high priority projects and get delayed projects back on schedule.

This report presents highlights of the operations and financial information for each of the transportation agencies during fiscal year 2005. In addition to this report, we have issued a separate report on DRPT entitled "Department of Rail and Public Transportation, Report on Audit, For the Year Ended 2005" and a separate financial statement report for the Port Authority . The reader may access these reports through our website, www.apa.virginia.gov.

Transportation Funding

Sources of Funds

As illustrated in Table 1, the CTF has three primary funding sources that support the Commonwealth's transportation agencies and their activities. In fiscal year 2005, these sources generated over $3.8 billion in transportation funding. The sources are specific transportation user fees and taxes, such as fuels tax, motor carrier fees, vehicle titling fees, and a half-cent state sales-and-use tax, which are dedicated to transportation needs and federal highway funding. The Code of Virginia requires the allocation of these transportation revenues primarily between two funds, each designated for specific purposes: the Highway Maintenance and Operating Fund and the Transportation Trust Fund.

The Port Authority is a component unit of the Commonwealth. Tables 1 and 2 list sources and uses of CTF excluding the activities related to the Port Authority. We issue a separate report on the financial statements of the Port Authority.

Table 1

Sources of Transportation Funds

Taxes	$ 1,956,057,951
Fees, licenses, and permits	417,588,308
Federal grants and contracts	502,896,580
General Fund appropriations	317,483,978
Tolls	58,522,008
Fines and assessments	27,824,516
Interest, dividends, and rents	30,275,436
Bond proceeds	347,828,244
Other	60,140,119
Receipts from cities, counties, and towns	85,009,486
Transfers	32,636,484
Total resources	$ 3,836,263,110

Source: Commonwealth Accounting and Reporting System - Cash Basis
Note: Excludes activities of the Port Authority

The Highway Maintenance and Operating Fund (HMO) receives most of the revenues generated by motor fuels tax, motor vehicle sales tax, and the annual vehicle license fee. During fiscal year 2005, deposits to the HMO fund were approximately $1.3 billion. The principal use of these revenues is the maintenance of Virginia's extensive network of interstate, primary, urban, and secondary roads. This includes the costs of resurfacing roads, pothole repairs, and other maintenance activities. In addition, the HMO fund supports the operating costs of Transportation and DRPT.

The Transportation Trust Fund (TTF) finances the construction of new transportation infrastructure. The largest state contribution comes from Virginia's one-half cent sales and use tax. The fund also receives a share of the revenue generated by the Commonwealth's fuel taxes, motor vehicle sales tax, and annual vehicle licensing fees. The majority of federal transportation revenues are dedicated to the Highway Construction Fund. In fiscal year 2005, deposits were approximately $614 million. A detailed table of sources and uses of funds by agency is included in Appendix A.

Uses of Funds

The Code of Virginia establishes the allocation of the TTF according to a stated formula: mass transit (14.7 percent), ports (4.2 percent), airports (2.4 percent), and highways (78.7 percent). The prioritization of activities funded is loan repayments, highway maintenance and operations, aviation, mass transit, ports, support to other state agencies, administration, upkeep of the Transportation's buildings, and certain other activities. The funding allocation for Motor Vehicles' operations occurs before the transfer of revenues to the CTF.

The Virginia Transportation Act of 2000 (VTA) established the Priority Transportation Fund (PTF), a component of the TTF. Revenues directed to the PTF come from a variety of new and existing revenue sources, including revenues generated by a change in the Virginia Fuels Tax Act, TTF, HMO revenue in excess of forecasts, and any other appropriations that the General Assembly and Governor may provide. We discuss the PTF in more detail in the Department of Transportation section of this report.

In fiscal year 2005, the agencies under the Secretary of Transportation spent $3.4 billion, or 12 percent of the $29 billion statewide annual budget. As illustrated in Table 2, maintenance and construction of highways were the largest uses of these funds.

Table 2

Uses of Transportation Funds

Highway acquisition and construction	$ 991,372,698
Highway acquisition and construction through bond proceeds	114,164,678
Highway maintenance	1,026,502,232
Financial assistance to localities	318,124,085
Administration and regulation	387,241,422
Toll facilities	41,238,594
Debt service, principal and interest	221,107,851
Rail and public transportation	185,561,348
Aviation	24,825,053
Other uses	52,763,235
Total uses	$3,362,901,196

Source: Commonwealth Accounting and Reporting System - Cash Basis
Note: Excludes activities of the Port Authority

General and Non-General Funds

Revenue collections have steadily increased over the past decade; however, at the same time, Transportation has experienced shortages of funding for construction of new projects and maintenance of existing roadways. To understand the current transportation situation in the Commonwealth, it is important to understand how the Commonwealth forecasts, budgets, and spends funding. This section of the report explains the mechanisms used to track the collection and allocations of transportation funds.

The Commonwealth classifies revenues in two ways, General Fund revenues and Non-General Fund revenues. General Fund revenues are those revenues not earmarked for expenses before collection. For example, individual income taxes, when collected, are General Funds and the Acts of the Virginia General Assembly guide how they are spent. On the other hand, Non-General Fund revenues represent specific revenues segregated in specific accounts for a specific use. For example, the Commonwealth maintains the Literary Fund, whose revenues support localities in the construction of primary and secondary schools.

Although the transportation agencies receive some General Fund revenues, most of the funding comes from Non-General Fund revenues set aside in the CTF. Table 3 shows the percentage of General and Non-General Funds budgeted for transportation agencies. The increase in the General Fund Budget for 2005 is due to the two year, $848 million set out in Chapter 951, 2005 Acts of Assembly as the Governors Transportation Initiative, $240 million, of which was allocated in fiscal year 2005 for improvements to the Commonwealth's Transportation infrastructure system.

Table 3

General Fund to Non-General Fund Budgets

	General Fund	Non-General Fund	Percentage
2001	325.6	2,850.45	11.42%
2002	45.0	2,816.77	1.60%
2003	140.7 [1]	2,621.09	5.37%
2004	122.9 [2]	3,133.38	3.92%
2005	317.4 [3]	2,879.70	11.17%

Sources: Chapter 814, 2002 Acts of Assembly, Chapter 943, 2004 Acts of Assembly, Chapter 951, 2005 Acts of Assembly

[1] Includes $50 million not transferred until 2004
[2] Includes $50 million not transferred until 2005
[3] Increase due to 2005 Transportation Initiative, Chapter 951; §493.10

Commonwealth Transportation Fund Budget Development

Both state and federal revenues are funding sources for the CTF. State revenues consist of various taxes and fees that support the primary transportation funds. There are also several direct sources of revenues including federal funds, debt, toll revenues, reimbursements from localities, and public- private transportation arrangements.

The Department of Taxation (Taxation) prepares revenue estimates for the major state revenue sources. Taxation bases this forecast on economic models used to project revenues using key factors including national and state economic scenarios. This process is the same method used to forecast General Fund revenues. In addition, Transportation prepares the federal revenue forecast based on federal highway apportionment tables. The 2005 forecast of HMO and TTF revenues, prepared by Taxation, is included in Appendix B.

Taxation provides two CTF forecasts: the standard and an alternative. The purpose of these forecasts is to provide two distinct perspectives of the national economy with the alternative outlook typically being the more conservative forecast. Taxation subscribes to national economic forecasts, which provide information for several regions and international industries, including state governments. The Governor's Advisory Board of Economists and the Advisory Council on Revenue Estimates recommend the choice of the standard or alternative outlook to the Governor in independent assessments.

The budget development process consists of two phases: revenue forecast and cost estimation. Because the CTF is special revenue funded, the success of transportation incentives is dependent upon reliable forecasts and accurate cost estimations. Overly optimistic forecasts or inaccurate project cost estimations can lead to cash flow and project completion issues. This section reviews the state and federal revenue forecasting methodology and accuracy over time. We also look at the methods to estimate maintenance and construction costs over time and the historical impact of forecast and cost estimation accuracy.

Revenue Forecasting

Before fiscal year 2002, Motor Vehicles performed a portion of CTF forecasting. Since then, this function has transferred to Taxation, now responsible for forecasting all major sources of tax revenue for the CTF. Taxation estimates most of the revenue sources tied to fuels taxes and user fees. Taxation also forecasts sales tax revenue for the one-half cent dedicated to Transportation. Transportation is responsible for forecasting revenues from transportation related activities.

In developing the revenue estimate, Taxation considers a number of factors and variables, including motor fuel prices, vehicle prices, personal income, motor fuel consumption, motor vehicle sales, new taxable titles, and vehicle registrations. Based on a combination of these factors and trends in transportation revenue collections, Taxation estimates what they believe to be the best projection to the Secretary of Finance for approval. Typically, the revenue estimates released in December of each fiscal year reflect estimates for the current fiscal year and six years beyond.

Each December, the Governor, the Secretary of Finance, and Taxation, release their formal revenue estimate for the Commonwealth, including the CTF related revenues. This estimate becomes the basis of all transportation appropriations. The transportation agencies, the Commonwealth Transportation Board, and the General Assembly use the results of this forecast in the development of the agencies' budgets.

Federal Grants and Earmarks

Federal Transportation Funds are the second major source of funding for the CTF. These federal funds assist in providing for construction, reconstruction, improvement of highways and bridges on eligible federal highway routes, and for other specific purposes as awarded by FHWA. In fiscal year 2005, federal transportation revenues were $452 million or 13.5 percent of the total revenues allocated for transportation funding in the Commonwealth.

The Federal-Aid Highway Program is a reimbursable program, and as such, the federal government only reimburses for costs actually incurred each year. Federal funding consists of two basic types: Highway Trust Funds (HTF) and earmarks. The Federal Highway Administration (FHWA) distributes HTF based on a formula established by the federal government. The HTF also contains other discretionary funds for Transportation and Rail and Public Transportation projects. On the other hand, earmarks are grants for specific amounts dedicated to specific programs or projects. These grants generally require matching contributions by the Commonwealth to receive actual FHWA reimbursement.

FHWA allocates federal funds through apportionments. These apportionments act as lines of credit; and Transportation may draw upon these funds as federally-assisted projects are developed. Assignment of federal funds through apportionment occurs before Transportation submits actual expense reimbursement requests. Since many highway projects take multiple years to complete, apportionments have a four-year obligation period before they expire. Once they expire, Transportation must return any unused funds to the federal government for reapportionment. Historically, Virginia uses all its available apportionments.

The apportionment of federal transportation dollars are governed by federal legislation known as SAFETEA-LU (Safe, Accountable, Flexible, Efficient Transaction Equity Act - A Legacy for Users), passed in August 2005. Included in this legislation (Public Law 109.59) was a series of tables, by federal fiscal year, which estimate the amount of federal transportation apportionments and earmarks each state could expect. SAFETEA-LU establishes an annual federal-to-state obligation and accompanying limitation, for limiting highway spending each year. Limitations are set-aside each year, for certain programs. These limitation set-asides do not expire if the state does not use the fund by the end of the fiscal year, but instead carry over into future years. The portion of the limitation set-aside for research and technology programs may also carry over, but only for three years. This balance accumulates with the current year apportionment.

New to this legislation are several programs that promote private investment in Transportation. Pilot programs increase state flexibility to use tolls, not only to manage congestion, but to finance infrastructure improvements as well. To help close the gap between highway infrastructure needs and resources available from traditional sources, SAFETEA-LU includes provisions that enhance innovative financing. Private Activity Bonds provide states the opportunity for new sources of investment capital to finance transportation infrastructure system. The Transportation Infrastructure Finance and Innovative Act (TIFIA) program

provides Federal credit assistance to nationally or regionally significant surface transportation projects. The Act also expanded the benefits of State-Infrastructure-Bank programs to all states and U.S. territories, allowing all entities to enter into cooperative agreements with the Secretary of Transportation and to establish infrastructure revolving funds eligible to be capitalized with Federal transportation funds authorized for fiscal years 2005 - 2009.

Since fiscal year 2003, Transportation began considering the spending limitations imposed in the original TEA-21 (Transportation Equity Act of the 21st Century) in its budgeting process. The forecasted amounts in Table 4 reflect total apportionments available to Transportation from FHWA, not the expected federal expenditures for which Transportation will receive federal reimbursement. Actual Transportation expenditures may fluctuate from year to year due to the timing of projects; however, all of Transportations federal apportionments have been obligated to projects in the Six Year Improvement Program over the required 3-year span.

Table 4

Federal Grants and Contracts Revenues

	Highway Maintenance Fund		Transportation Trust Fund		Total Commonwealth Transportation Fund		
Year	Forecast	Actual	Forecast	Actual	Total Forecast	Total Actual	Variance
2001	5.7	11.5	765.7	537.9	771.4	549.4	-28.8%
2002	22.7	15.1	952.4	948.8	975.1	963.9	-1.1%
2003	-	13.6	669.4	678.3	669.4	691.9	3.4%
2004	-	13.4	1,068.8	639.2	1,068.8	652.6	-38.9%
2005	-	29.4	764.8	456.0	764.8	485.4	-36.5%

Source: Department of Taxation
(in millions)

Forecasting Accuracy

The transportation agencies budget on an annual, biennial, and six-year basis using these revenue estimates. The accuracy of the estimates can influence decisions as to how much and which construction and maintenance work is scheduled and accomplished each year and throughout the Six-Year Improvement Program. As previously noted Taxation, and Transportation collect and forecast revenues that support transportation. All of these estimates are part of the annual budgeting process for the Commonwealth.

As illustrated in Table 5, transportation revenues from state taxes and fees have steadily increased and the revenue forecasts have been accurate. However, as Table 7 illustrates, total actual revenues lagged behind total forecasted revenues for at least four of the last five years. This variance is primarily due to the disconnection between federal apportionment and reimbursement illustrated in Table 4. Revenue estimates are prepared using the total forecasted revenues; therefore, transportation funding has been consistently over budgeted.

Transportation Revenues *

Table 5

State Taxes and Fees Revenues

	Highway Maintenance Fund		Transportation Trust Fund		Total Commonwealth Transportation Fund		
Year	Forecast	Actual	Forecast	Actual	Total Forecast	Total Actual	Variance
2001	1,171.8	1,180.4	728.5	750.5	1,900.3	1,930.9	1.6%
2002	1,175.9	1,226.3	739.9	749.4	1,915.8	1,975.7	3.1%
2003	1,292.8	1,256.1	756.3	744.9	2,049.1	2,001.0	-2.3%
2004	1,285.0	1,334.6	773.4	799.7	2,058.4	2,134.3	3.7%
2005	1,357.6	1,357.3	837.2	846.5	2,194.8	2,203.8	4.1%

Table 6

Other Transportation Revenues **

	Highway Maintenance Fund		Transportation Trust Fund		Total Commonwealth Transportation Fund		
Year	Forecast	Actual	Forecast	Actual	Total Forecast	Total Actual	Variance
2001	5.7	11.5	862.1	638.2	867.8	649.7	-25.1%
2002	22.7	15.1	1,053.1	1,062.3	1,075.8	1,077.4	0.2%
2003	-	13.6	779.1	783.8	779.1	797.4	2.3%
2004	-	13.4	1,241.0	763.8	1,241.0	777.2	-37.4%
2005	-	29.4	877.0	620.4	877.0	649.8	-25.9%

** Other revenues include federal grants and contracts, receipts from localities, and toll and miscellaneous revenues

Table 7

Total Commonwealth Transportation Fund Revenues

Year	Forecast	Actual	Variance
2001	2,768.1	2,580.6	-6.8%
2002	2,991.6	3,053.1	2.1%
2003	2,828.2	2,798.4	-1.1%
2004	3,299.4	2,911.5	-11.8%
2005	3,071.8	2,853.6	-7.1/%

* Source: Department of Taxation
(in millions)

Project Priorities and Transportation Planning

The transition from revenue estimation to a budget of transportation projects involves a two-step process. These steps include the statutory allocations of the revenues, discussed later, and the development of transportation project priorities.

Observation

The Commonwealth lacks a statement of clear objectives regarding transportation plans. Most of the plans designed and implemented were in response to a specific problem rather than part of an intricate statewide plan with specific and measurable objectives. Specific objectives for improving the Commonwealth's transportation system include providing a seamless transportation network throughout the state by improving interconnections between all transportation modes. Coordination between all Transportation agencies is an integral part to the future success of the Commonwealth's Transportation system.

The development of transportation project priorities includes making a long-term assessment of transportation needs in the Commonwealth and then converting these needs into projects. The long-term process, VTrans2025, intends to provide a long-term assessment of transportation needs through 2025 and set priorities to address those needs. The Six-Year Improvement Program (SYIP) is the mechanism that the Commonwealth Transportation Board uses to schedule and program projects. We discuss VTRANS 2025 and the SYIP in more detail below.

The lack of coordination between Transportation agencies is evident in the preparation of individual agency Six-Year Improvement Programs. There is a disconnection between the preparation of VTRANS 2025 objectives and the programmed SYIP. Although Transportation agencies cooperate at the general planning objective level through the development of VTRANS 2025 goals, they have responsibility to individually develop a program of projects unique to their respective agency. The programming of projects, like the development of overall Transportation goals and objectives, should be a consolidated effort on the part of all Transportation agencies to ensure that all the agencies evaluate every possible alternative before allocating funding to a new project.

VTrans2025

The Commonwealth Transportation Board, as directed by the 2002 Virginia General Assembly, developed a multimodal long-range transportation plan with a statewide focus. The legislation called for the development of a plan in three phases and identifies specific deliverables for each phase. This plan, titled VTrans2025, is a combined effort of four state transportation agencies: Aviation, DRPT, the Port Authority, and Transportation. VTrans2025 is a formal planning effort that analyzes the future trends and needs of highway motorists, rail and transit passengers, freight shippers, airline travelers, cyclists, and pedestrians.

The VTrans2025 Policy Committee developed the plan. The committee includes management from the four modal agencies, Commonwealth Transportation Board members, representatives from the Virginia Aviation Board and the Port Authority Board of Commissioners, and the Secretary of Transportation's Office. A VTrans2025 Technical Committee, chaired by the Secretary's Office and composed of planning staff from each of the four modal agencies, prepares the plan and other products associated with VTrans2025.

Transportation completed the third and final VTrans2025 phase in November 2004. Phase 1 began in 2001 with stakeholder discussion group meetings across the state and the establishment of long-range goals and objectives. Phase 2, the vision component of the plan, included stakeholder outreach meetings, evaluation of various transportation-related policies, and an inventory and assessment of the existing transportation system. The last phase stage consisted of a report that serves as both a vision plan that establishes broad multimodal transportation policy goals, objectives, and strategies and a multimodal transportation needs assessment that identifies large-scale systems of multimodal projects.

The final VTRANS 2025 Report addressed a number of transportation needs and recommended a number of alternatives for meeting the needs of the citizens of the Commonwealth. Recommendations include:

- Increased transportation funding overall
- A larger investment in transit systems
- Increased support for railroad capital improvements and operating assistance
- Protecting Transportation Revenues from being spent in other programs
- Coordinating land use decisions between state, local, and regional planners
- Improving Connectivity by prioritizing projects that connect major roads

The recommendations addressed broad issues and did not contain specific deliverables as to how the participating transportation agencies would meet the recommendations. The Transportation agencies in the Commonwealth should develop a set of specific measurable deliverables and milestones to ensure the implementation of the recommendations in the VTRANS 2025 report. The objectives outlined in the VTRANS 2025 report should clearly and directly tie to the program of projects developed each year in the Six Year Improvement Plan.

Six-Year Improvement Program

The Six-Year Improvement Program (SYIP) is the mechanism the Commonwealth Transportation Board uses to schedule and program projects. It outlines the Board's plan to distribute available funds for ports, airports, public transit, rail, and prioritized highway construction projects in the current fiscal year and for the following five fiscal years. Currently, Transportation is operating under the 2006-2011 SYIP.

The SYIP has two phases for highway projects: development and construction. Projects in the development phase are in the planning stage and funding is not yet available for their construction. Projects in the construction phase have enough funding to begin building within the next six fiscal years. The SYIP gives priority to those projects that address critical safety and mobility issues and environmental compliance. Most projects in the construction phase have a sufficient commitment in the revenue stream to assure their full funding by the year of completion.

Observation

Once the Board completes and approves the SYIP, the Department uploads the plan into the Financial Management System (FMS). Project managers are to use the information provided by FMS to track project expenditures; however, the system does not provide any controls to prevent a project from exceeding its approved budget. Rather, it is the responsibility of individual project managers to ensure actual expenditures are within the approved budget. Transportation should consider the implementation of this type of budgetary constraint in the current upgrade of the Financial Management System.

In the past, many of the decisions to start or add projects to the SYIP appear to have been motivated more by a project's popularity or the desire to begin as many projects as possible rather than develop a realistic, deliverable project plan. Transportation staff and the Board did not follow established, objective criteria to determine project selection and authorization. They also did not consider available resources for long-term project funding. Policy makers encouraged this environment and the construction program expanded dramatically.

Eventually, Transportation experienced cash shortages resulting from the lack of cash and project management and construction projects in the SYIP did not match with available resources. In an effort to correct the plan, Transportation removed 166 projects in the fiscal year 2003 SYIP. To address the long-term need for objective criteria to determine project selection based on available resources, Transportation has developed a project prioritization process, which incorporates the broad goals outlined in the VTrans2025 report.

The current SYIP (2006-2011) allocates $6.98 billion to study, design, or build highway infrastructure as well as $2.4 billion to study, design, or build new public transit infrastructure and provide operating assistance to existing transit systems over the six-year period beginning July 1, 2005. For the current year, the staff have classified SYIP funding sources in more detail on an individual project basis. This differs from the previous practice of accumulating funding in a lump sum and allocating funding to projects from that sum. This process allows tracing funding sources down to the individual project level. Programming changes delayed the approval and loading of the SYIP prior to the start of the current fiscal year. Transportation plans to complete, approve, and upload the 2007-2012 SYIP prior to the beginning of fiscal year 2007.

Both the VTrans2025 and the SYIP are dependent upon Transportation's ability to provide reliable, consistent, and accurate project cost estimates. The planning and the allocation of scarce resources depend on having information that allows the Board to project the Commonwealth's ability to meet its transportation needs. Historically, project cost estimation has led the Board to approve projects that later proved much more costly than originally intended and grew beyond their original scope.

One of the primary reasons for the reduction is projections of transportation resources, such as fuels tax, remain flat over the next six years. That, in combination with rising maintenance costs, depletes funding for new highway projects. Maintenance funding has grown from $482 million in 1986 to $1.3 billion in 2005 and projected maintenance needs will increase to $1.5 billion in 2010.

Meanwhile, core construction funding has declined from $964 million in 1998 to $792 million in 2005. Transportation has projected a decrease to $560 million in 2010. The Board approved the final transportation budget for the next fiscal year. It allocates $3.1 billion for all transportation costs including maintenance and construction operations and administration, debt payments, and support to ports, aviation, and transit.

Cost Estimation

The second phase of the budgeting process is the projection and estimation of program costs. While consideration of all costs is important, CTF program activity is primarily project-oriented. Therefore, accurately estimating project costs is critical to budget development and monitoring.

Project cost estimation is a process of determining the amount of materials and predicting other costs that are required to complete a project. It should serve as a means to connect the planning of projects to their execution. In the initial stages, the ability to link potential costs to high level project planning helps to determine the viability of a project. It also provides a means to develop exact specifications and guidelines for projects. Having this ability allows transportation agencies to conduct project advertisements to potential contractors, as well as develop a level of expectation for results. Transportation agencies should use project cost estimation as the link between project execution and budget formulation not only for a particular project, but for transportation as a whole.

Cost Estimation at Transportation

Project cost estimation is in a period of transition at Transportation. Over the past 20 years, the tools used to project costs evolved from contract management systems to actual unit cost estimation. In the 1980s, Transportation began using a cost estimation software package called Trns*Port. This system helps manage projects during various phases of the planning and construction process. With modifications made over time, the system currently has the ability to use historical construction data from Transportation, as well as industry standard costs to develop project cost estimates. In order to produce a reliable estimate, Trns*Port requires detailed engineering and project specifications be used. With this information, the system can supply unit cost estimation for projects including such items as traffic control barrels and tons of concrete. The major weakness to Trns*Port is its inadequate usefulness as a long-range planning tool.

The Commonwealth Transportation Board uses the SYIP as a long-range funding plan for Virginia's transportation system. The SYIP shows the distribution of both actual current year and anticipated five-year allocations for a six-year period to items such as ports, airports, public transportation, and highways. It also includes funding for the interstate, primary, urban, and secondary systems, public transportation, and other federal and state transportation programs.

The SYIP is the implementation plan for all roadway construction projects in the Commonwealth. The Board revises the plan annually to establish construction project priorities throughout the state. When Transportation incorporates a project into the SYIP, plans are often incomplete, full right-of-way costs are not determined, extraordinary engineering requirements are not considered, and other design issues are not completed. Since Trns*Port requires detailed project plans to produce a reliable estimate, this system cannot reliably be used to help estimate project costs and budget needs.

The Auditor of Public Accounts' 2002 *Special Review of the Cash Management and Capital Budgeting Practices in the Virginia Department of Transportation* identified the need for Transportation to ensure that expected project payouts are in line with expected revenues. Transportation is developing a construction project-scoping program that analyzes projects by function instead of by project detail. This system, the Project Cost Estimation System (PCES), takes into account, at the beginning of a project, the estimated levels of service on the roadway and project components instead of individual details.

Cost Estimation at DRPT, Port Authority, and Aviation

Due to their smaller size, DRPT, Port Authority, and Aviation do not maintain large planning and engineering staffs. Planning of projects occur on a case-by-case basis. These agencies frequently contract with architectural and engineering firms to develop project cost estimates. For example, when the Port Authority decides to undertake a project, they provide the firms with general specifications. The firms conduct the extensive work, deciding material usage and labor needs. They provide the Port Authority with the final specifications to decide if the project is feasible. If so, the Port Authority will issue a request for proposal for the project. The goal is that the bids will be under the original estimate, and they often meet that goal. Most importantly, when the Port Authority receives project proposals, they already have an estimate of project costs.

Cost Estimation at Motor Vehicles

While Motor Vehicles is not a project-oriented agency, its operational costs can have an impact on the funds available for transportation projects. In November 2003, the Auditor of Public Accounts issued a special report on cost analysis at Motor Vehicles, which included recommendations for improving costing and budget estimation processes at the agency. The Auditor of Public Accounts issued a second report the following year detailing Motor Vehicles plan to address these issues, including a new cost accounting structure.

In April 2004, Motor Vehicles completed the redesign of the agency's cost code structure. This redesign was necessary for the implementation of a cost model that would accurately reflect the true costs of Motor Vehicles' activities. Motor Vehicles also contracted with the University of Virginia to conduct a study on the average time it takes to process various transactions at customer service centers.

Motor Vehicles used the 2003 APA Cost Study as a guide when developing their own Cost Model. The Agency separated the model into six major functions; Driver Services, Vehicle Services, Tax Services, Motor Carrier, Information Services, and Transportation Safety. These six functions were then broken down into their major revenue producing activities. Motor Vehicles calculated direct costs, indirect overhead, and transaction volume for each activity to produce a cost per item. The cost per item for each of the activities is the major product of the cost model.

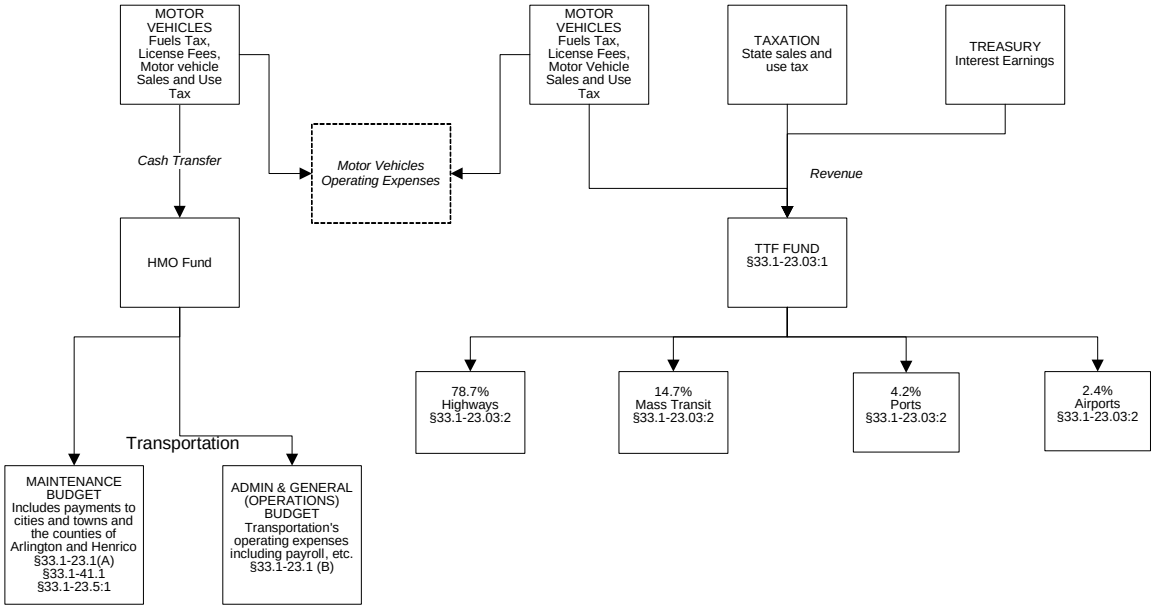
Motor Vehicles made improvements and refined the cost model during 2005. The agency addressed and implemented the recommendations made in the two cost study reports. Management is using the cost model information to aid in decision-making. If implemented properly the cost model will provide management with necessary information to increase fees and/or reduce costs as necessary. The cost model will constantly be changing to keep up with the changes and reorganizations at Motor Vehicles.

Commonwealth Transportation Fund Allocations

Six agencies manage the Commonwealth's transportation system and receive funding from a variety of sources including federal, state, and local revenues. Road construction projects and maintenance budgets require approval of an oversight board. Further, many projects require multiple year funding commitments and relatively few receive funding from a single revenue source. To move transportation projects forward, policy makers must shape comprehensive funding packages.

The flowchart below shows the CTF's sources of revenue and the allocation of these revenues to the various funds. Proceeds from federal grants and bonds go directly to the fund that is entitled to them. Revenues collected by Motor Vehicles and Taxation such as taxes, licenses, and vehicle registrations support both of the Transportation Funds. The Code of Virginia mandates the allocations of revenues. Appendix C illustrates the allocation structure of certain fees and taxes.

HMO Fund allocations provide road maintenance funding, while TTF allocations primarily support road construction. Transportation receives an allocation of 78.7 percent of the TTF revenues collected. The remaining 21.3 percent of TTF allocations provide funding for the Mass Transit, Port, and Airport Funds. Transportation also receives a substantial portion of its highway funding from the Federal Highway Administration (FHWA) in the form of federal grants. Bond revenues primarily come from Federal Revenue Anticipation Notes and several refunding bonds. A detailed flowchart is included in Appendix D.



Commonwealth Transportation Board

The General Assembly established the Board as the State Highway Commission in 1906. Its original mission was to advise the counties, who at that time had responsibility for their roads, on planning, funding, and administrative issues. Today, the Board is primarily responsible for locating routes, approving some construction contracts, creating traffic regulations, naming highways, and administering and allocating funding.

The Governor appoints, and the General Assembly confirms, the 17 members of the Board. The Secretary of Transportation serves as Chairman of the Board and the Commonwealth Transportation Commissioner acts as Vice-Chairman. The Director of DRPT also serves as a non-voting member. The Governor selects one member from each of the state's nine highway districts and five members as at-large members. State law limits Board members to two successive four-year terms, although the Governor may appoint a member to complete an unexpired term who is still eligible to serve two full terms.

Although the geographic district structure is the basis for appointment of nine members, state law assigns all members their duties on a broader basis; that is, they are to represent the state as a whole, not solely the districts from which they are appointed.

Legally-Required Duties

The Code of Virginia classifies executive branch boards as either advisory, policy, or supervisory. The Board is a policy board. Policy boards are statutorily required to disseminate public policies and regulations. The Code of Virginia requires that the statutes governing a board must explicitly describe which powers a board can exercise. Policy boards are not responsible for supervising agencies or employing personnel. For Transportation, all powers not specifically assigned to the Board rest with the Commonwealth Transportation Commissioner. The Commissioner's authority includes undertaking all acts necessary or convenient for constructing, improving, and maintaining the roads in the Commonwealth.

The Code of Virginia specifies the legal powers and duties of the Board. The legislation contains 16 specific powers and duties, which include:

- Location of routes;
- Approval of all construction contracts;
- Coordination of the planning for financing of transportation needs as provided in Section 33.1-23.03 of the Code of Virginia;
- Administration, distribution, and allocation of funds in the TTF as provided by law;
- Approval of all maintenance contracts equal to or greater than $250,000; and
- Recommendation of Transportation projects to the General Assembly for their consideration at the next session of the General Assembly.

The Code of Virginia also requires the Board to conduct a comprehensive review of statewide transportation needs in a statewide transportation plan outlining an inventory of all construction needs for all systems. The Board establishes goals, objectives, and priorities based upon this inventory, covering a 20-year planning horizon in accordance with federal transportation planning requirements. The General Assembly has clearly expressed their intent that the Board establish objective criteria for project selection and prioritization and maintain a statewide transportation focus.

Six general issues and policies affect the funding of CTF projects. These include budgeting and forecasting procedures, available cash and other financing sources, the Commonwealth's debt issuance policy, project cost estimates and allocations, the crossover for maintenance costs, and the agencies administrative operating costs.

Department of Transportation

The Virginia Department of Transportation (Transportation) builds, maintains, and operates the Commonwealth's roads, bridges, and tunnels. Virginia has the third largest state-maintained highway system in the United States with an annual operating budget of approximately $3 billion. Transportation maintains over 57,000 miles of interstate, primary, and secondary roads and distributes state funds to help maintain over 10,000 miles of urban streets. Transportation not only maintains roads, but also maintains more than 12,600 bridges, 4 underwater tunnels, 2 mountain tunnels, 3 toll roads, 1 toll bridge, 4 ferry services, 41 rest areas, and 107 commuter parking lots. Transportation has over 9,300 employees, making it one of the three largest state agencies in the Commonwealth.

Transportation's main sources of funding are the HMO Fund and TTF allocations. HMO Funds provide road maintenance funding, while the TTF primarily supports road construction. As reported previously, Transportation receives an allocation of 78.7 percent of the TTF monies collected. Transportation also receives a substantial portion of its highway construction funding from the FHWA in the form of federal grants.

Transportation's funding sources, including the TTF and HMO allocations, totaled over $3.4 billion. Table 8 illustrates the sources and uses of Transportation's funding.

Table 8

Transportation Resources and Uses

	2005	2004
Resources:		
General Fund appropriations	$ 317,439,911	$ 122,929,586
Federal grants and contracts	452,051,104	635,805,292
Taxes	644,307,429	609,984,827
Fees, licenses, and permits	32,309,028	33,405,575
Tolls	58,522,008	56,928,031
Fines and assessments	44,382	27,005
Interest, dividends, and rents	28,560,400	21,829,444
Bond proceeds	347,828,244	4,679,309
Other	59,012,386	29,215,724
Receipts from cities, counties, and towns	84,646,890	55,904,551
Transfers	1,321,272,025	1,239,092,436
Total resources	$3,345,993,807	$2,809,801,780
Uses:		
Administrative	$ 222,285,395[1]	$ 97,581,274
Highway acquisition and construction	991,372,698	1,226,538,754
Highway acquisition and construction through bond proceeds	114,164,678	-
Highway maintenance	1,026,502,232	879,460,577
Financial assistance to localities	279,823,458	259,646,782
Toll facilities	41,238,594	37,982,558
Debt service, principal, and interest	221,107,850	223,071,403
Other uses	43,951,074	24,839,085
Total uses	$2,940,445,979	$2,749,120,433

Source: Commonwealth Accounting and Reporting System - Cash Basis

[1] Increase in Administrative spending due to funding change to improve budgeting consistency per Chapter 951 §484 of 2005 Acts of Assembly. Administrative Management Costs were removed from Highway acquisition and construction to Administrative.

Highway Maintenance and Operating Fund

The HMO fund was originally the Commonwealth's only highway fund. The 1986 General Assembly session created the TTF specifically to fund construction improvements for all modals. The HMO's primary function is the funding of highway system maintenance and Transportation's general and administrative expenses.

The Code of Virginia establishes the guidelines for identifying required highway maintenance activities and distributing funds for those activities. The Board must allocate reasonable and necessary funding for maintenance of roads within the interstate, primary, and secondary systems, city and town maintenance payments and counties that have withdrawn or elect to withdraw from the secondary system. For fiscal year 2005, the Board approved over $1 billion for Transportation maintenance spending, and a $250 million distribution to localities for maintenance activities, in 2004 these activities were $918 million and $250 million respectively.

While the Code of Virginia prioritizes the maintenance of the existing state highway infrastructure over other activities, including construction, it does not establish specific guidelines relating to the condition of the highway system or any funding. Currently, Transportation develops the maintenance budget solely on historical data and additional needs, which is the previous year's budget plus four percent. However, Transportation is working on a new asset management system to perform needs-based budgeting that sets priorities and distributes resources based on these priorities.

Under the current budget process, the Asset Management Division has the responsibility of allocating funds within the maintenance program. Previously, the Maintenance Program Leadership Group (MPLG) that includes all nine District Maintenance Engineers and a few others had the decision-making authority over the maintenance budget; however, that responsibility has shifted to the Asset Management Division. The MPLG now acts as an advisory group to them. The districts submit their budgets to the Asset Management Division who compiles and makes the initial decision to approve or reject the total budget. The Division then forwards the total budget to the Commissioner and the Board for final approval.

In the past few years, the transfer of TTF funds to the HMO has reached a point known as "Crossover." This is the amount of construction funding required to support basic maintenance and operations activities. A discussion of crossover is included later in this report.

Transportation Trust Fund

After funding maintenance expenses as discussed above, the Code of Virginia requires the allocation of the remaining funds for the administration of Transportation and the construction program. To establish the TTF for construction, the General Assembly dedicated certain revenue streams to a special non-reverting fund in 1986. These revenues were increases in existing taxes and fees, with the increase dedicated to the TTF. The largest of these revenue sources, the one-half cent state sales and use tax increase, represented a new source of funding for transportation, while the other tax and fee increases represented increases in existing transportation sources. Unlike the HMO, which is dedicated to highways, the TTF allocates funds to all modes of transportation in Virginia. The current allocation percentages are:

	Percentage
Highways	78.7%
Mass transit	14.7%
Ports	4.2%
Airports	2.4%

Transportation acts as the fiscal agent of the TTF and allocates the revenues as provided in the Code of Virginia. Transportation allocates these revenues before allocating any funds for the highway system. The process begins with the official revenue forecast for transportation revenues. Once received, Transportation determines the allocation amounts to the various modes using these percentages. Transportation distributes the revenues to the other agencies as they become available throughout the year.

In addition to the 78.7 percent of the TTF, Transportation allocates its federal apportionment to constructing, reconstructing, and improving the interstate, primary, secondary, and urban road systems. The allocation of the construction formula funds is as follows.

> *40 Percent Primary System* - Allocated to each of the nine construction districts based on primary roads by weighted factors of 70 percent for vehicle-miles traveled, 25 percent for lane miles, and 5 percent for the primary road need factor.

30 Percent Secondary System - Allocated to each of the counties based on population and land area by factors weighted as 80 percent for population and 20 percent for land area.

30 Percent Urban System - Allocated to cities and towns by population.

Priority Transportation Fund

The Priority Transportation Fund (PTF), a special non-reverting fund, is a component of the Transportation Trust Fund. Required deposits to the PTF include the following:

- additional revenues attributable to the Virginia Fuels Tax Act;
- Transportation Trust Fund and Highway Maintenance Operating Fund in excess revenues over official estimates; and
- any other appropriations provided by the General Assembly and Governor.

Transportation may only use these funds to finance the priority transportation projects designated in the Virginia Transportation Act (VTA). If they cannot spend the funds on other priority projects, at the Board's discretion, Transportation may re-allocate the funds as needed to meet construction cash-flow needs. The Board then designates funds to projects within a transportation district.

During fiscal year 2005, the PTF received almost $37 million in General Funds, $155 million from the Highway Construction Fund, and $20 million in additional revenues attributable to the Virginia Fuels Tax Act. Transportation did not expend any money for PTF projects in fiscal year 2005. However, Transportation transferred approximately $119 million to fund FRAN debt service per Chapter 951 in the 2005 Acts of Assembly, and over $15 million each to the Northern Virginia Transportation District and the Route 58 Corridor Development funds. In fiscal year, 2004 Transportation spent over $7.6 million for PTF projects and transferred approximately $117 million to fund FRAN debt service and over $23 million to the Northern Virginia Transportation District and the Route 58 Corridor Development funds.

Crossover

"Crossover" is the point at which maintenance funding takes dollars out of construction. Crossover requires a transfer from the TTF to the HMO fund. Maintenance and general and administrative expenses receive funding first and any excess allocation goes to construction. However, if required, the Board may move funds from the TTF to the HMO fund.

Transportation anticipated the occurrence of crossover for nearly ten years. However, during that time, normal revenue growth far surpassed any projected revenue shortfalls, thereby meeting the maintenance funding needs. This is currently not the case. Transportation experienced crossover beginning in fiscal year 2002. It expects crossover to continue at least through 2011 according to Financial Planning's Six-Year Projection, which the agency presented to the Commonwealth Transportation Board for approval in June 2005. The crossover amount for fiscal year 2004 was $56.9 million and was $244.6 million for fiscal year 2005.

Currently, crossover occurs because maintenance is not a needs-based process, and there is no systematic way for Transportation to identify its maintenance needs. Crossover is occurring because of the method Transportation uses to project maintenance expenses for coming years. In the 2006 budget cycle, Transportation made a one-time adjustment; increasing forecasted maintenance expenditures by 10 percent due to the Governor's Transportation Initiative in Chapter 951 2005 Acts of Assembly. Transportation will

continue its policy of increasing maintenance forecasts four percent each year for the next six years. Transportation performs maintenance work equal to the amount of its budget, and typically exceeds its budget. Without an accurate system to determine the maintenance needs, Transportation cannot accurately state that these needs are causing crossover.

Options to resolve crossover include reducing spending, increasing revenues, or developing a dependable system to identify maintenance needs. At this time, however, crossover is included as part of the six-year budget process. Transportation is currently developing an Asset Management System to address this issue.

Asset Management System

The Asset Management System (AMS) provides tools to assist management in planning, budgeting, implementing, and monitoring of maintenance work efforts. Transportation has completed version 1.0 of AMS. This version contains four of the six modules planned: Random Condition Assessment; Needs Based Budget; Planning; and Analysis tools including Decision Tree Builder and Query Wizard. Transportation began deploying the final two modules (Work Accomplishments and Inventory) in August 2005. The implementation plan will run through December 31, 2006, to allow for an incremental release to the districts.

The final cost for AMS version 1.0 was $2,214,735, which was 8.2 percent over the original budget of $2,046,794. Approximately $100,000 of the overage is due to improper recording of hours, with the remainder attributable to a VITA approved extension to the original schedule based on a request by Transportation.

Transportation has begun utilizing the system to transition into a needs based budgeting process for the maintenance and operations program. The agency used this new process to allocate maintenance budgets to each district for the fiscal year 2006 budget based on the total maintenance budget provided by the forecasting method mentioned earlier. It is Transportations intention in the future to rely on AMS to produce the total maintenance needs for the Commonwealth and determine the amount of total maintenance funding required to meet those needs. Currently, AMS does not have every asset recorded in the database. Over the years, Transportation will model additional assets into AMS, which will help increase the accuracy of the budget request for maintenance. The second version of AMS will include additional modules along with interfaces with existing Transportation systems.

Other Revenue Sources

Transportation accumulates revenues from other sources in addition to the revenues discussed above. These include toll revenues, reimbursements from localities, public/private partnerships, the General Fund, and debt.

Toll facilities provide a portion of Transportation's revenues and arise from the operation of three major toll facilities located in Northern Virginia, Central Virginia, and Hampton Roads. The facilities are the Omer L. Hirst – Adelard L. Brault Expressway (the Dulles Toll Road), the Powhite Parkway Extension Toll Road, and the George P. Coleman Bridge. These toll revenues pay the debt service on bonds issued to construct and fund daily operations of these roads.

Localities provide reimbursements for participation projects. Participation projects occur when Transportation performs construction or repair work for localities, who must pay a certain percentage of the construction costs.

The Virginia Public-Private Transportation Act of 1995 (PPTA) authorizes the Commonwealth, its local governments, or other public agencies to enter into agreements allowing private entities to develop, design, construct, maintain, and/or operate transportation facilities if they determine that private involvement would provide the facilities in a timely and cost-effective manner. The PPTA permits private entities to submit unsolicited proposals, as well as proposals solicited by public entities.

The PPTA has a four-phase submission and evaluation process. The first phase is the submission of a conceptual proposal for a prequalification review conducted by an Initial Review Committee. Phase two includes the review and approval/rejection of the conceptual proposal by the Board. Phase three of the evaluation process consists of scheduled submission of a detailed proposal for evaluation and recommendation by the Public-Private Transportation Advisory Panel. Finally, phase four is the selection of the proposal by the Commonwealth Transportation Commissioner.

To assure opportunity for full and open competition, the receiving agency must publish notice of receipt of any unsolicited conceptual proposal, after which other private entities may submit competing conceptual proposals for the agency's consideration. Transportation issued these implementation guidelines to facilitate the selection of transportation privatization projects.

The Board has approved the following projects:

Active PPTA Projects

Route 28 - Northern Virginia area
Dulles Rail – Northern Virginia area
Capital Beltway (I-495) HOT Lanes – Northern Virginia area
Jamestown 2007 - Hampton Roads area
Coalfields Expressway - Bristol area
Route 58 - Salem area

Completed PPTA Project

Pocahontas Parkway (Route 895) - Richmond area
Route 288 - Richmond area

The Pocahontas Parkway (Route 895) is a toll road connecting I-95 and I-295 east of Richmond International Airport, and the first construction project approved under the PPTA. To finance the project, the Pocahontas Parkway Association (PPA), a not-for-profit corporation, entered into a partnership between Transportation and the private sector. PPA issued $354 million in tax-exempt bonds that would use Parkway tolls to repay the bonds.

The Commonwealth is not legally responsible for these bonds, even though it owns and operates the road. However, for accounting and financial reporting purposes, the PPA is a blended component unit of the Commonwealth.

As of June 2005, actual traffic using the facility averaged about 98,000 vehicles per week, which is approximately 50 percent of the initial forecast. The PPA's accumulated net asset deficit increased to $118.1 million in fiscal year 2005 from $100.9 million in fiscal year 2004. Expenses, including debt service, operating, and a transfer to the Capital Cost Savings Account, exceeded revenues by $17.2 million.

Debt

Transportation also uses various debt to finance roads and issues debt instruments in accordance with the Constitution of Virginia. Most of Transportation's debt has a dedicated revenue stream used to pay debt services with a significant portion of debt secured by future federal reimbursements, referred to as Federal Revenue Anticipation Notes (FRANS) – Securitized Federal Reimbursements.

The Board has not had to develop an overall debt issuance policy, with the exception of FRANS. As indicated earlier, most of the debt has had a dedicated revenue stream to pay debt services. Classically most of the original debt was for toll road facilities with the toll paying debt service. Currently, Transportation operates as the fiscal agent of these facilities and we discuss the individual projects later in this report. However, in the past two decades, Transportation has begun entering into agreements with special districts to enhance transportation systems within the geographical boundaries of these districts. Following is a discussion of these districts and their financing.

Table 9

Transportation Debt – June 2005

Program	Outstanding Debt	Fiscal Year 2005 Debt Service	Year Paid Off
Oak Grove Connector	$ 25.9	$ 2.3	2022
Powhite Parkway Extension	31.8	6.2	2011
Coleman Bridge	37.3	3.5	2021
Dulles Toll Road	53.2	11.4	2016
Route 28	114.5	7.5	2018
NOVA Transportation District Program	323.1	25.7	2027
Route 58 Corridor Program	570.0	44.8	2026
FRANS	704.7	119.0	2012
Total	$1,860.5	$220.4	

Source: VDOT
(in millions)

Transportation's bonds fund a variety of diverse projects, including State Route 28, the U.S. Route 58 Corridor, the Northern Virginia Transportation District Program and the Oak Grove Connector (Chesapeake). All of these projects represent specific geographical areas with identified transportation project needs, and the citizens and governing bodies were willing to commit a portion of current and future revenue streams to fund these projects.

The State Route 28 bonds are limited obligations of the Commonwealth that require payments of debt service from a local dedicated revenue stream not controlled or imposed by Transportation. A special tax, recommended by the State Route 28 Highway Transportation Improvement District to the localities, imposes a tax on individuals and businesses in the District. In addition, the locality allocations as well as any other legally available money from the TTF are additional sources to pay debt service on the bonds.

The U.S. Route 58 Corridor Revenue Refunding Bonds, Series 2002B, depend on future appropriations, requested by the Transportation Board, of the recordation tax collected in the U.S. Route 58 Corridor Development Fund, which is a component of the TTF. Secondary sources for debt service include other legally available funds from the TTF and appropriated from the General Assembly. These bonds fund projects to upgrade and improve U.S. Route 58 over the length of Virginia.

The Northern Virginia Transportation District Program Bond Act of 2003 authorizes the Northern Virginia Transportation Authority to issue bonds in an aggregate principal amount not to exceed $1 billion to complete and implement certain transportation projects included in the approved plan. The plan includes the following construction projects:

- Route 15 Leesburg Town Line
- Fairfax County Parkway
- Route 1/Route 123 Interchange
- Route 123 Widening Occoquan, Occoquan River Bridge and improvements in Fairfax County
- Route 7 Loudoun and Fairfax counties
- Route 28 Parallel Roads and 625 interchange improvements in Loudoun
- Route 234 Bypass

The debt service will come from several revenue sources, including dedicated state and local revenues, such as the state recordation tax collected in the affected cities and counties and the public right-of-way use fees collected in Fairfax, Loudoun, and Prince William.

The Oak Grove Connector is 2.5-mile 4-lane limited access roadway that connects I464 to VA-168. The official opening of the Connector occurred in July 1999. Transportation Program Revenue Bonds financed the construction of the Oak Grove Connector. Sources for debt service include state recordation tax and local revenues collected in the city of Chesapeake and local general revenues.

FRANS have a dedicated revenue stream to pay debt services and unlike other debt, this debt does not relate to a specific geographical area. Transportation issues FRANS to finance various capital transportation projects throughout the Commonwealth pursuant to the Virginia Transportation Act of 2000 (VTA). The notes have a ten-year maturity and commit future appropriations of future Federal Highway Administration reimbursements.

At June 30, 2005, Transportation had outstanding $111.6 million in general obligation bonds, $1,044 billion in revenue bonds, $269 million in Series 2000 FRANS, and $436 million in Series 2002 FRANS.

Debt Issuance Policy

The Auditor of Public Accounts' July 2002 *Special Review of the Cash Management and Capital Budgeting Practices in the Virginia Department of Transportation* recommended that Transportation and the Commonwealth Transportation Board establish a debt issuance policy for FRAN's, including how and when to issue them, and create an overall debt capacity model. Based on those recommendations, on November 20, 2003, the Board adopted a debt management policy and capacity model for issuing FRAN's. The model limits FRAN maturity to ten years and debt service to 25 percent of the average federal reimbursements for the prior six years. All other Transportation debt is included in the existing capacity model and follows the Commonwealth of Virginia's debt management policy. The Debt Capacity Advisory Committee also reviewed and approved the debt management policy and capacity model in December 2003, as did the General Assembly.

The purpose of the Board's debt policy is to establish the level of indebtedness the Commonwealth Transportation Board can reasonably expect to incur without jeopardizing its existing credit ratings and to ensure the efficient and effective use of debt financing of the Board's transportation infrastructure development program. As such, the Board uses the debt policy with the approved budget, the Six-Year Improvement Program (SYIP), and the official revenue forecast.

Transportation's Innovative Finance and Revenue Operations division, along with the Public Resources Advisory Group (a private financial advisor) and Department of Treasury staff, worked to develop the debt management policy and capacity model. The overall intent of the policy is to ensure that the Board debt maintains its current credit rating. The policy will also guide Transportation and the Board in determining the timing, size, and debt structure of future FRAN issues.

Capital Asset Management

Transportation maintains and reports a majority of the Commonwealth's infrastructure, consisting of highways, bridges, tunnels, and right-of-way land, as well as a substantial portion of the Commonwealth's buildings and equipment assets. For fiscal year 2005, Transportation's total capital assets, net of accumulated depreciation, are $12.7 billion. These asset balances are included in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

For the last several years, beginning in fiscal year 2002, we have noted Transportation's deficiencies in the area of capital asset management and reporting. During 2003, we made specific recommendations for improvement in these areas, and Transportation developed an action plan to implement these recommendations. During fiscal years 2004 and 2005, Transportation continued to improve and refine their processes and define roles within their capital asset divisions. Because of Transportation's increased dedication, we have no findings to report related to capital assets for fiscal year 2005.

During fiscal year 2005, Transportation made significant progress towards implementing their action plan developed during fiscal year 2004. Transportation has specifically addressed the following items:

Transportation should define the roles and responsibilities of the newly created Capital Assets and Inventory Control Division.

Beginning in fiscal year 2005, this division became responsible for all asset categories except highway infrastructure, which Transportation plans to transition to the division by the end of 2007. The Financial Services Supervisor for the Capital Asset Division is responsible for the financial reporting and accountability of the real property and equipment. In addition, the Financial Services Supervisor will be responsible for developing and maintaining methodologies and policies and procedures manuals. The Capital Asset Division will communicate with the Capital Outlay and Asset Management Division in order to properly report capital assets for Transportation.

Develop an action plan to include assets currently controlled by the Asset Management Division under the oversight and direction of the Capital Assets and Inventory Control Division.

The Asset Management Division has control over the equipment assets, which they record and track in the Equipment Management System. The Capital Asset and Inventory Control Division is responsible for the proper stewardship of all assets recorded in the Equipment Management System and will provide oversight to ensure periodic inventories occur. The Capital Asset Division will also participate in the Rental Rate Committee, which ensures modifications to the Equipment Management System are appropriate, and will work directly with the Asset Management Division.

Review the equipment portion of fuel facilities and their appropriate useful lives and salvage values.

During fiscal year 2005, Transportation ensured that all fuel dispensing equipment records have a consistent salvage value of zero and a useful life of 360 months (30 years),

and fuel control terminals have a zero salvage value and a useful life of 180 months (15 years).

Perform reconciliation of differences within FAACS for fiscal years 2003 and 2004.

Transportation completed the reconciliation between fiscal years 2003 and 2004 for differences within FAACS during fiscal year 2005.

Review and refine as necessary the methodology for monitoring asset acquisitions.

Transportation added a process to identify potential capital asset purchases and review potential assets for capitalization. The Central Office and District Asset and Inventory Managers must review and research those items that may be possible assets for capitalization.

Document and refine procedures for capitalizing electronic or data processing equipment to distinguish between Transportation and VITA owned assets.

Transportation transferred the majority of their data processing equipment to VITA in fiscal year 2005. Transportation removed all data processing equipment from FAACS, and VITA recorded the vast majority of the items. Transportation and VITA agreed on a set of procedures for future data processing equipment purchases and included the procedures in a memo on Fixed Assets Guidance for fiscal year 2005.

Finalize the methodology for capturing and capitalizing the cost of improvements other than buildings for existing assets.

Transportation developed two alternative methodologies for capturing the cost of existing improvements other than buildings (non-highway infrastructure), such as parking lots, fences, and lighting systems. They have drafted preferred methodology which should be refined and in place by the agreed upon target date of 2006.

Evaluate current systems for reporting assets, including the Equipment Management System, and consider incorporating all capital assets into a new system.

Transportation evaluated the possibility of modifying the Equipment Management System, which is an older system, in order to provide the currently required capital asset reporting information. The cost and time estimated for the changes may render modification of the system not to be cost beneficial.

Transportation is evaluating the possibility of replacing the existing Equipment Management System. This development effort would be in conjunction with the new Financial Management System and may take several years. Allocating Transportation's scarce resources to acquiring a replacement system for the Equipment Management System that is more user-friendly appears to be preferable to modifying the existing system. Transportation is still evaluating the impact of the possible alternatives.

Adjust infrastructure amounts, starting with fiscal year 2005, for primary roadway discontinuances and abandonments.

For fiscal year 2005, Transportation adjusted Infrastructure by approximately $58 million for the removal of the primary roadway accumulated inventory value of discontinuances and abandonments. Transportation will continue to annually deduct primary roadway discontinuances and abandonments in the future.

Dashboard

Transportation has created a website application, known as Dashboard, which provides information to users about road and bridge construction contracts throughout the Commonwealth. Dashboard provides information on the progress and performance on road and bridge projects across the Commonwealth to the public. The website tracks all contracts that are actively under construction or ready to advertise for construction, with daily updates. It displays project contract status in one of four phases: advertisement, construction contract deadlines, construction contract award amount, or construction contract work orders. Each phase shows status via a stoplight-style system of green, yellow, and red lights. Green stands for on time and on budget, yellow for in risk of falling behind in one or both, and red for critically behind schedule or over budget.

Transportation created the Dashboard in the spring of 2003 as a way for highway department officials to monitor contracts. There were initially two versions of the Dashboard, the Project Dashboard, which is internal to Transportation and the Public Dashboard, which is available to the public. Recently, with the development of Dashboard version 2.0, the internal and public Dashboard systems are identical. The website provides a significant amount of information concerning each project contract for both internal and external users. It provides an e-mail address for the project manager in charge of a certain contract for comments, questions, and complaints.

Dashboard receives its information from the Data Warehouse, most of which comes from the Program/Project Management System (PPMS), Trns*Port, and Cost Estimating systems. These are systems used by project managers to assist in estimating costs and managing individual projects. This application serves as a communication tool for Transportation. Transportation has implemented online Project Dashboard monthly video conferences with districts to discuss the status of individual construction projects and work information.

In October 2004, Transportation's internal audit staff conducted a review of the Dashboard. Their audit found control weaknesses in the lack of disclosure for the basis of project cost accumulation, security of an operational password, and access rights of an operating database. Many of these control weaknesses originate from the data Dashboard pulls from the Data Warehouse. Transportation has responded to the recommendations and has made substantial progress towards completing those recommendations.

The Construction module of the Dashboard allows users, internal and external, to look up particular construction contracts that may relate to a construction project. The measurement of performance is that of the contract not the project as a whole. Dashboard measures the performance of individual contracts by comparing the original contract amount with engineering estimates to complete the work within the scope of that contract.

When the inspector's estimate to complete, current contract amount, or cost of work to complete exceeds the award amount by less than 3 percent, the contract has a green status. Projects that exceed 3 percent have a yellow status. Projects with red status are those exceeding the award amount by 10 percent or more.

Transportation typically uses a project code or UPC to identify a complete project. This UPC is the constant identifier from a projects inception in the Six Year Improvement Plan through the Engineering, Right of Way, and Construction phases until the project is completed. Larger projects can have several UPC's to manage individual phases or portions of phases.

Dashboard does not measure a project but rather individual contracts that make up a project. The data provided by Dashboard is inconsistent with other planning tools used by Transportation such as the SYIP and FMS, which use UPC for their organization. Therefore, in order to measure the performance of a large project a Dashboard user would need to identify every construction contract associated with that project, which in some cases can be cumbersome. In addition, there are additional expenses associated with a project not charge directly to a particular contract and not presented in the Dashboard.

Observation

Transportation should develop a method that links a project's UPC in such a way that Dashboard users, if they desire, can assess all contracts within a project. In the interim, Transportation should ensure that the Dashboard website informs users that the measurement is by contract and does not necessarily represent a complete project.

FMS II Upgrade

Transportation is undertaking an upgrade of its financial management system (FMS II) to reduce significant risks because vendors no longer support the current Transportation financial management application and environment. Without a functioning financial management system, Transportation would not be able to conduct the financial business of the agency, including paying its vendors and receiving revenues.

The project-planning phase was estimated to complete by January 2006. However, they have recently requested and received approval from the Virginia Information Technology Agency, an extension of 3 months, moving the completion date to March 2006. This extension is to add time to investigate requirements dealing with VDOT capital assets. This was partially due to a report our office issued in early 2005. Once requirements are complete, Transportation will develop estimated completion deadlines for the projects remaining phases along with an estimated budget for the completion of the project and implementation of the system.

Update on Cash Management and Capital Budgeting Practices

We published a review of Transportation's cash management and capital budgeting practices in July 2002. The review included recommendations for Transportation, the Board, the Governor, and the General Assembly. The Secretary of Transportation designated a Board committee to address the 12 recommendations addressed to the Board, the Governor, and the General Assembly. Transportation is specifically responsible for implementing 50 recommendations. Transportation has developed a work plan with 'deliverables' needed to fully implement the recommendations. Although Transportation has documented substantial progress towards implementation of the recommendations, we have not audited the actual implementation.

Department of Motor Vehicles

Motor Vehicles is the primary collector of funding to support transportation programs in the Commonwealth. The agency funds its operations by retaining a portion of revenues collected and obtaining

federal grants for agency-specific programs. The percentage of collections kept by Motor Vehicles varies by operations and purpose of collections. The Code of Virginia establishes the distribution and use of funds. In addition, the Governor's Budget and actions of the General Assembly may also restrict and limit Motor Vehicles' use of the collections retained. The amount retained by Motor Vehicles is approximately 8 percent of every dollar collected in each of the past two fiscal years.

Motor vehicle registration fees, vehicle title fees, driver license fees, record fees, and reserved license fees are the primary collections, which in turn produce the highest sources of revenue for operations. Motor Vehicles places its portion of the revenue in a special fund titled, "Motor Vehicles Special Fund." Management uses the resources out of the Motor Vehicles Special Fund to administer the programs and to meet statutory requirements. Motor Vehicles' major expenses are personal services, postage, information technology, telecommunications, license plates, equipment, and plant rentals.

Table 11 illustrates the total sources and uses of funds.

Table 11

Sources and Uses of Funds

	2005	2004
Sources:		
Federal grants and contracts	$ 17,282,401	$ 11,655,801
Taxes	1,168,703,510	1,160,523,630
Fees, licenses, and permits	380,035,108	377,013,953
Fines and assessments	27,774,956	24,471,842
Interest, dividends, and rents	130,181	14,974
Other	423,536	326,123
Transfers	(1,374,295,700)	(1,365,965,018)
Total sources	$ 220,053,992	$ 208,041,305
Uses:		
Administrative	$ 50,000,388	$ 35,052,138
Vehicle and driver regulation administration	110,345,563	125,849,219
Financial assistance to localities	38,300,627	36,324,717
Other uses	8,812,161	8,170,166
Total uses	$ 207,458,739	$ 205,396,240

Source: Commonwealth Accounting and Reporting System - Cash basis

Fuels Tax

The fuels tax collection process at Motor Vehicles generates over $739 million in revenues. In our 2004 Commonwealth Transportation Report, we noted deficiencies that existed in the processing and resolution of discrepancies in the collection process and recommended the development of written policies and procedures, creation of reliable system generated reports, and reduction of the use of manual processes with the Fuels Tax division.

Motor Vehicles made significant progress towards the resolution of these issues. The Fuels Tax division completed and implemented a formal policy and procedure manual in May 2005. Management used the Code of Virginia sections relating to Fuels Tax as a guideline for the policies and procedures. These sections are very specific in regards to Fuels tax, outlining all percentages and due dates. Motor Vehicles has also addressed the issue of creating reliable system generated reports. The Fuels Tax division focused on creating accounts receivable reports that show a true accounts receivable balance and validate information from the system bills. Finally, the transition to electronic filing by all taxpayers occurred in September 2005. This transition has greatly reduced the manual processes used by the Fuels Tax division.

Budgeting and Performance Measures

In 2004, the APA reported on Motor Vehicle's efforts to develop an effective performance management system. The system is comprised of various types and levels of measures. During 2004, Motor Vehicles undertook its first effort to develop benchmark's with similar state agencies. Since the report, Motor Vehicles has continued the implementing their performance management system.

Management is in the process of implementing a 'dashboard" that will include human resources, information technology, customer service, and financial measures. Its purpose is to provide management information and insight for more effective operational decision-making. Development of this application began with the implementation of human resource recruitment information and there are plans for the cost accounting and financial information as a future enhancement of the dashboard, which is not scheduled.

Motor Vehicle updated its strategic plan in 2004 and incorporated the new service area structure that is part of the statewide effort to link strategic planning to the legislative budget process and to performance measures. DMV's updated strategic plan includes most of its existing performance measures as well as many new measures for the newly identified service areas of: Vehicle Regulation, Driver Regulation, Motor Carrier Regulation, Financial Assistance to Localities, Information Technology Services, Facilities and Grounds Management, and General Management.

Motor Vehicle will begin data collection for its new measures developed for the new service area structure in fiscal year 2006. Full implementation of the strategic plan performance measures will occur with the next biennial budget of 2007-2008. The Department of Planning and Budget, which manages the system, plans to replace the Virginia Results website but has not yet designed a new system; so it is uncertain when the new measures will be publicly available on the web. Existing measures continue to be available at the Virginia Results website.

The first benchmark study was recently completed. It included eight participants and will include approximately 13 new participants in fiscal year 2006. The basis for these measures is not comparable to the other performance measures developed by Motor Vehicles. Motor Vehicles used an external consultant and standardized to permit comparison between different state's motor vehicle agencies. However, as the group of participants gets larger, these measures will become a valuable tool for evaluating Motor Vehicles performance.

Our 2004 report emphasized the important that Motor Vehicles develop performance measures that show the cost to provide services. Currently, Motor Vehicles has a single cost per customer measure which aggregates all services provided. Now that Motor Vehicles has completed its activity based cost accounting system, it has the information needed to develop these cost measures by type of service. This type of cost information is critical for determining an appropriate balance between the quality and cost of service provided and customer satisfaction.

Traffic Records Electronic Data System

Motor Vehicles is obtaining Information Technology Investment Board approval for the pre-planning phase of the Traffic Records Electronic Data System (TREDS). This project will record all reportable vehicle crashes in the Commonwealth. The current system is primarily paper driven from the time the law enforcement writes the report until Motor Vehicles images the report onto microfilm. The data is in a mainframe system and requires data entry by Motor Vehicles staff. The goal of the project is to eliminate the inefficiencies in paper work and make the process automated for Motor Vehicles, law enforcement, the court system, and Transportation. Transportation uses the crash reports to help study roads for improvements in safety and the court system utilizes the data for convictions.

The TREDS project has not yet received approval from the Virginia Information Technology Agency. Motor Vehicles hopes to gain approval by December 2005. The current cost estimate is $4.3 million with an estimated duration of 4 years. Motor Vehicles is currently reviewing systems from two other states, Kentucky and Indiana, while also starting on their requirements gathering.

Integrated System Redesign

The 2005 Recommended Technology Investment Projects report recommended Motor Vehicles for funding for an integrated system redesign project. The system will transform three major business areas; driver, vehicle, and motor carrier, into a more modern and user-friendly system. This request will address the ever-changing needs related to internal security, homeland security, legislative mandates, and customer relationship management. The current proposal does not have approval for funding. The estimate for the project is $32.6 million and will take approximately 3 years to complete. Motor Vehicles plans to issue an RFP for the integrated systems redesign, which will not require any new full-time employees to implement the system.

Future Programs

Motor Vehicles will be implementing two new programs in the next few years; Centralized Licensing and Real ID. The Centralized Licensing program will begin in the fall of 2006. This program will change the process in which Motor Vehicles issues driver's licenses and state ID cards. A private company will process all licenses at a centralized location and mail them to customers within three business days. By centralizing this process, it will allow Motor Vehicles to compare photographs of applicant's to photographs the agency already has on record. This will help reduce the likelihood that someone will be able to obtain a false ID. Motor Vehicles plans to finalize a contract with a private company to perform centralized licensing by December 2005.

In May 2005, Congress passed the Real ID Act that requires all Americans to have federally approved, electronically readable ID cards by May 2008. Motor Vehicles will be responsible for verifying the authenticity of identification, issuing tamper proof cards, and meeting other standards established by the Department of Homeland Security. The Governor has created a Real ID taskforce, chaired by the Commissioner of Motor Vehicles, to study the costs and service impacts and report by December 31, 2005.

Virginia Port Authority

The Port Authority is the Commonwealth's agency for international transportation and maritime commerce. The Port Authority's major activities are developing Virginia's ports through cargo solicitation and promotion throughout the world; developing water transportation facilities; maintaining ports, facilities, and services; providing public relations, and domestic and international advertising; and providing security services. To deliver these services, the Port Authority has offices in five cities in the United States and five

foreign countries. A Board of Commissioners composed of 12 members manages the Port Authority. The Commonwealth Transportation Board only oversees the allocations to the Commonwealth Port Fund. The Port Authority Board of Commissioners is the oversight board to the Port Authority.

The agency owns four general cargo terminals in Virginia that enables them to foster and stimulate the commerce of the Commonwealth ports. This includes promoting the shipment of goods and cargo through the ports, seeking to secure necessary improvements of navigable tidal waters within the Commonwealth, and performing any act or function that may be useful in developing, improving, or increasing the commerce, both foreign and domestic, of the Commonwealth ports.

Virginia International Terminals, Inc. (VIT), a separately incorporated nonprofit corporation, operates all of the marine terminals owned by the Port Authority. VIT is a discrete component unit of the Port Authority and other independent auditors audit its financial statements. Virginia Port Properties, Inc. (VPP), also a separately incorporated nonprofit corporation, manages all foreign leases on behalf of the Port Authority. The activities of VPP are subject to an annual financial audit of the Port Authority performed by the Auditor of Public Accounts.

The Port Authority does not receive General Fund appropriations, but generates revenue from port operations (i.e., special revenues). In fiscal year 2005, the Port Authority received $43.8 million in the form of rental income, interest income, and cash transfers from VIT's net cash flow. In addition, the Authority received $12.7 million in special revenue from borrowings related to the Master Equipment Lease Program. Of this special revenue, the Port Authority used $51.8 million for operations, including general operating expenses, certain debt service expenses, and some acquisition, construction or improvements of major capital facilities. The Port Authority used the remaining revenue to fund required increases in reserve accounts and transferred a portion back to VIT for additional capital needs.

Since the Authority is a component unit of the Commonwealth, the related financial activity is not included in this report. We issue a separate report on the financial statements of the Virginia Port Authority.

Commonwealth Port Fund

The Port Authority receives 4.2 percent of the TTF, which funds the majority of the Port Authority's capital projects. The Port Authority also uses the TTF revenue for operational maintenance, related to capital projects, but not capitalizable; aid to local ports; payments in lieu of taxes to localities; and debt service payments related to capital projects. The Port Authority's capital projects essentially include maintaining and expanding the existing ports, wharfs, and related facilities.

In fiscal year 2005, the Port Authority received revenues of $33.2 million from the TTF through the Commonwealth Port Fund. With this revenue and remaining funds from fiscal year 2004, the Port Authority incurred $840,000 in payments in lieu of taxes to localities; $6.0 million for engineering, and construction services; $23.6 million for debt service expenses; and $886,000 for equipment use agreements. Funds remaining in the Port Fund at the end of each fiscal year do not revert to the Commonwealth, but remain with the Port Fund for future needs.

Port Authority Debt

The Port Authority had a balance of $435.2 million in long-term debt, excluding current maturities at fiscal year end. Of this amount, $408.2 million is in the form of revenue bonds issued by the Port Authority. The 4.2 percent allocation of the TTF and a sum sufficient appropriation from the Commonwealth supports the 1996, 1998, 2002, and 2005 Commonwealth Port Fund Revenue bonds. Terminal revenues and insurance policies support the 1997 and 2003 Port Facilities Revenue bonds.

Department of Rail and Public Transportation

The Department of Rail and Public Transportation (DRPT) is primary responsibility for determining the present and future needs for, and economic feasibility of providing public transportation, transportation demand management, and ridesharing facilities and services and the retention, improvement, and addition of passenger and freight rail transportation in the Commonwealth. They accomplish this by developing and implementing programs; coordinating research, planning, and policy analysis efforts with Transportation, and developing standards to evaluate all public transportation activities in the Commonwealth.

Additionally, DRPT maintains liaisons with state, local, district, and federal agencies or other entities, private and public, having responsibilities for passenger and freight rail, transportation demand management, ridesharing, and public transportation programs. This includes coordinating efforts with other entities and managing public, freight rail, and passenger transportation grant programs.

DRPT's primary sources of funding are allocations from the HMO fund and through the TTF, as well as federal grants. The HMO fund supports the state match requirement, Washington Metropolitan Transit Regulation Compact, and the administrative budget. Allocations from the TTF are a major revenue source for the Department. DRPT receives federal grants from the Transportation Equity Act for the 21st Century (TEA-21) Flexible Funds, the Federal Railroad Administration, and the Federal Transit Administration.

DRPT manages their own administrative functions, such as grants management and fiscal operations. However, as mandated by the Acts of the Assembly Chapter 167, Transportation provides all administrative, research, policy analysis, planning, right-of-way acquisition, and such other services to DRPT. There is no cost for normal services, but any substantial expansion of these services shall be the financial responsibility of the requesting agency.

Table 11

Sources and Uses of Funds

	2005	2004
Sources:		
Federal grants and contracts	$ 33,295,587	$ 16,765,592
Taxes	113,201,247	109,410,893
Fees, licenses, and permits	2,972,362	3,003,363
Fines and assessments	4,451	4,120
Interest, dividends, and rents	985,783	753,456
Other	-	981
Receipts from cities, counties, and towns	544,595	354,987
Transfers	87,900,775	30,599,805
Total sources	$238,904,801	$160,893,197
Uses:		
Administrative	$ 1,492,821	$ 1,286,781
Rail and public transportation	185,561,348	158,723,446
Total uses	$187,054,169	$160,010,227

Source: Commonwealth Accounting and Reporting System - Cash basis

Appropriations for rail and public transportation projects have steadily increased. In fiscal year 2005, DRPT received appropriations of approximately $162.8 million. The 2005 Virginia Acts of the Assembly also appropriates $260.2 million in fiscal year 2006. This increase in funding creates an increase of responsibility for the Department's administrative functions.

Our review of management at DRPT found that the new DRPT fiscal administration staff is capable of handling the continually increasing agency budget. Internal controls have improved significantly in the fiscal division over the past year. DRPT should continue to improve internal controls and should develop written policies and procedures to ensure that controls remain in place if the current staff should leave.

Management Review

The Auditor of Public Accounts conducted a review of the management processes for budgeting, grants, capital projects, and strategic planning was and issued a report in October 2005. We made several observations regarding the operations and programs administered by the DRPT. Overall, we concluded that the DRPT has adequate controls over its administration of grant allocations and review and the current project management processes provide adequate oversight and ensure compliance with applicable laws, rules, and regulations. We did have some concerns about the DRPT's ability to retain qualified staff to maintain the current level of project management, particularly with the Dulles Metrorail Project.

We also observed that the DRPT currently allocates operating assistance funding to recipient public transit providers based on eligible operating expenses as the sole criteria for awarding funding. In order to set forth specific, measurable objectives for statewide mass transit, the General Assembly may wish to reconsider how they currently fund mass transit. By implementing tiered performance measures as a gauge for allocating state operating assistance for public transportation, the Commonwealth could more accurately track the progress of an integrated, statewide mass transit plan.

A concern with the DRPT's collection of interagency receivables from the Department of Transportation, causing DRPT's past due receivables to exceed $15 million was also addressed in the Report. DRPT and Transportation have identified the issues relating to this and are currently addressing them.

Our review found that with the increased demand for public transportation and mass transit, DRPT can expect to manage more capital projects in the future and should develop and implement a set of standard operating procedures for project management. Failure to develop a standard set of guidelines may cause problems in the event that any of the current project managers depart from the agency or the number of capital projects for which DRPT is responsible for managing substantially increases.

Commonwealth Mass Transit Fund

DRPT receives 14.7 percent of the TTF and allocates this share according to the Code of Virginia, Section 33.1-23.03:2. DRPT transfers these funds to aid the mass transit systems throughout the state using the following allocation:

- 73.5 percent for urban and non-urban areas that fund public transportation systems for operating related expenses such as administration, fuels, lubricants, tires, maintenance parts, and supplies under a distribution formula using total operating expenses;

- 25.0 percent for capital purposes based on eligible capital expenses less any federal assistance received. Capital expenses include items such as replacement buses or rail cars, stop signs, and construction of terminals and stations; and

- 1.5 percent for special projects such as ridesharing, experimental transit, and technical assistance. Ridesharing programs are to support existing or new local and regional Transportation Demand Management programs. Experimental funds assist communities in preserving and revitalizing public or private public transportation service by implementing innovative projects for one year of operation. Technical Assistance supports planning or technical assistance to help improve or initiate public transportation services.

Dulles Corridor Metrorail Project

On June 11, 2004, the Commonwealth entered into a PPTA contract with Dulles Transit Partners LLC to engineer, design, and construct the Dulles Corridor Metrorail Project. The project includes an extension of Metrorail along the Dulles Corridor between the existing Metrorail Orange Line near the West Falls Church station in Fairfax County, Virginia, to Route 772 in Loudoun County, Virginia. The corridor encompasses several activity centers, including Tysons Corner, Reston, Herndon, and Washington Dulles International Airport, as well as the emerging activity center in eastern Loudoun County.

DRPT, as the project sponsor, is responsible for the project schedule and budget. The Department has assembled its own project team located in Northern Virginia to carry out DRPT's responsibilities on the project. DRPT will receive technical support from the Washington Metropolitan Area Transit Authority (WMATA) with the engineering and construction on this project. The project is complex and includes preliminary engineering, real estate acquisition, procurement actions, construction, vehicle acquisition, start-up and testing, and system integration into the WMATA operating system.

The project will have two phases, with Phase 1 scheduled for completion in 2011 and Phase 2 scheduled for completion in 2015. The preliminary estimate for Phase 1 is approximately $1.84 billion of which 25 percent of the capital costs will be state funds, 50 percent federal and 25 percent from Fairfax County. Phase 2, when approved by the Federal Transit Administration (FTA), will have a similar funding arrangement: 25 percent state funds, 50 percent federal funds, and 25 percent from local funding.

The local funding partners for the project include jurisdictions and related public agencies that will benefit from the project. These partners have agreed to contribute a portion of project costs. The FTA, the Commonwealth, and Fairfax County will provide capital funding for Phase 1 of the project. Funding for the capital costs of Phase 2 of the project will come from the FTA, the Commonwealth, Fairfax County, Loudoun County, and Metropolitan Washington Airport's Authority. WMATA and member jurisdictions will be responsible for the operation and maintenance of the system. We discuss the Dulles Metrorail Extension Project in further detail in the Report on Internal Control for the Department of Rail and Public Transportation completed in November 2005.

Based on the information obtained during our management review, the proper management structure, experience, and oversight exists for the Dulles Corridor Metrorail Project, which is the largest and most complex project DRPT has ever undertaken. Considering the long-term nature, complexity, and cost of the project, continuous high-quality management and oversight is critical to its success. DRPT is providing oversight to the project with employees and a contractor that have limited experience with the Commonwealth and there exists a risk that critical personnel changes would affect the effectiveness of the project's management.

Department of Aviation

Aviation plans and promotes air transportation in the Commonwealth; licenses aircraft and airports; and funds local airport planning, development, and improvements. The Commonwealth Transportation Board

does not provide oversight to Aviation. Their role is ensuring the appropriate allocations occur from the TTF. It is the function of the Aviation Board to monitor policies and programs of the Department, promulgate regulations necessary to promote and develop safe aviation practices, and allocate funds to localities for aviation development.

Aviation consists of the Director's Office and four divisions: Airport Services, Communication and Education, Flight Operations and Safety, and Finance and Administration. 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, plans for the development of a state aviation system, promotes aviation, and licenses aircraft, airports, and landing areas. Aviation also provides air transportation services to the Governor, the Legislature, and state agencies.

As illustrated in Table 13 below, Aviation receives the majority of its funding from the 2.4 percent of the TTF allocation to the Commonwealth Airport Fund. Aviation's other primary revenue sources are from the collection of aviation fuels taxes and Virginia aircraft sales and use taxes. These revenues, in addition to the TTF allocation, pay Aviation's administrative expenses and provide funding to local airport improvements, maintenance, airport system planning, regulation, and safety.

Table 12

Sources and Uses of Funds

	2005	2004
Sources:		
General Fund appropriations	$ 44,067	$ 48,137
Federal grants and contracts	267,488	90,570
Taxes	29,845,765	27,412,453
Fees, licenses, and permits	574,518	579,284
Fines and assessments	727	673
Interest, dividends, and rents	565,283	340,521
Other	489,259	3,613,573
Transfers	(2,668,188)	(3,616,742)
Total sources	$29,118,918	$28,468,469
Uses:		
Administrative	$ 848,807	$ 708,059
Aviation	24,825,053	20,145,569
Total uses	$25,673,860	$20,853,628

Source: Commonwealth Accounting and Reporting System - Cash basis

Commonwealth Airport Fund

Aviation receives 2.4 percent of the Commonwealth's TTF and follows the statutory requirements for its allocation. By statute, Aviation must commit 40 percent of those funds as entitlement payments to air carrier airports, 40 percent to air carrier and reliever airports on a discretionary basis, and 20 percent to

general aviation airports on a discretionary basis. Air carrier airports, with the exception of those owned or leased by Metropolitan Washington Airport Authority, receive an allocation of funds based upon the percentage of enplanements for each airport to total enplanements at all carrier airports, with a maximum of $2 million and a minimum of $50,000 per year. Air carrier, reliever, and general aviation airports must apply for discretionary funds. Aviation evaluates, prioritizes, and submits recommendations for allocation of the discretionary funds to the Virginia Aviation Board for final revision and approval. The Aviation Board allocates the discretionary funds and carries forward any uncommitted funds from the current fiscal year to the next fiscal year for future projects.

Motor Vehicle Dealer Board

The General Assembly created the Dealer Board effective July 1, 1995, to regulate motor vehicle dealers and salespersons. Previously, Motor Vehicles had this responsibility. 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.

A 19-member board governs operations and sets dealer and salesperson fees that support daily activities. The Motor Vehicles Commissioner serves as Chairman and the Commissioner of Agriculture and Consumer Services also serves on the Dealer Board. The Governor appoints the remaining members to staggered terms. Dealer Board members represent franchised and licensed dealers, the rental and salvage industries, and consumer interests.

Motor Vehicles provides administrative and fiscal services for the Dealer Board, which receives no General Funds. Certification and licensing fees accounted for approximately $1.5 million of fiscal 2005 revenue of $1.9 million.

The Dealer Board employs 20 full-time and four part-time staff who investigate dealer compliance and complaints against dealers; process dealer applications and renewals; respond to consumer complaints; monitor advertising; and perform other administrative and supervisory functions.

Motor Vehicle Transaction Recovery Fund

The Dealer Board also administers the Motor Vehicle Transaction Recovery Fund to compensate consumers who have judgments against licensed dealers or salespersons for violations of regulations or fraudulent activity related to a vehicle transaction. The fund is restricted from use for any other purpose. The Code of Virginia limits recovery to retail purchasers of vehicles and to licensed or registered dealers or salespersons who pay into the fund.

To finance this fund, newly licensed dealers pay $250 annually for three years. After three years, annual fees are no longer required. Dealers located in another state who want to sell at wholesale auctions in Virginia pay $60 annually. In addition, dealers and salespersons may pay individual annual fees ranging from $10 for a salesperson to a maximum of $100 for a dealer. The Code of Virginia sets maximum fee amounts while granting the Dealer Board the authority to suspend or reinstate fees.

For the past three years, revenues have exceeded claim payments in the Motor Vehicle Transaction Recovery Fund; however, the fund balance has decreased. A $4.2 million transfer to the General Fund in fiscal year 2003 accounts for most of the decrease.

Table 13

Motor Vehicle Transaction Recovery Fund Activity

Balance at July 1, 2002	$ 4,389,922
Fiscal year 2003:	
Revenue	379,147
Claim payments	(125,902)
Transfers	(4,234,922)
Net decrease	(3,981,677)
Fiscal year 2004:	
Revenue	229,804
Claim payments	(124,753)
Net increase	105,051
Fiscal year 2005:	
Revenue	228,418
Claim payments	(80,886)
Transfers	2,217
Net increase	149,749
Balance at June 30, 2005	$ 663,045

FINDINGS AND RECOMMENDATIONS

Department of Transportation

Timely Delete Terminated Employee Access

Transportation does not remove employee accounts in a timely manner for the Financial Management System (FMSII), the Equipment Management System (EMS), the Inventory Management System (IMS/WebIMS), and the Highway and Traffic Records Information System (HTRIS). We identified 37 active accounts belonging to terminated employees, some of which have been active for up to eight months past the termination date. Transportation's policy states that once an employee no longer requires access to a system due to retiring, resigning, or changing positions, Transportation must suspend their account within 30 days and delete the account within three months. This policy also includes monitoring policies and procedures to ensure that the removal process occurs timely.

Failure to delete employee access could result in inappropriate access using these active accounts to Transportation critical systems. In addition, Transportation should completely remove all unnecessary inactive user accounts from the systems to minimize risk of inappropriate use and make management of accounts easier.

We recommend that Transportation re-evaluate the effectiveness of their account removal policy and procedures. This review should include the adequacy of the period review process, as well as, evaluating the risks of potentially leaving accounts open for 30 days.

Obtain Assurance over Security and Information Technology Infrastructure

State IT Policy makes all agency heads, including the Transportation Commissioner, responsible for the security and safeguarding of all of databases, information, and information technology assets. Over the past two years, the Commonwealth has moved the information technology infrastructure supporting these databases and information to the Virginia Information Technology Agency (VITA). As part of this transfer, Transportation also transferred many of the staff who had the expertise to advise the Commissioner on these matters.

Since VITA has assumed responsibility for the information technology infrastructure, the Commissioner must have VITA provide assurance that their infrastructure provides the safeguards to protect information and databases required by state policy. We believe that Transportation cannot solely ensure that their data has the proper level of security to protect it from unauthorized changes, disclosure, or loss now that these resources and authority have been shifted to VITA.

The Commissioner needs to evaluate Transportation's capabilities for determining the level of assurance needed from VITA. Since Transportation retains ownership and maintains the application systems and databases that gather information, the Commissioner's internal staff has full responsibility for access controls to these systems. If these systems operate in a shared environment, the provider of the shared services would need to assure the Commissioner of the adequacy of those controls. This shared environment is the same as the mainframe data center operation that VITA and its predecessors offered. While Transportation and VITA have entered into a detailed memorandum of understanding (MOU) that defines service level responsibilities in this shared environment, the current MOU does not address the security levels required by Transportation.

For the secure transmission of information to and from the database, the Commissioner must address whether Transportation has the expertise to assess this issue. Inherent within this question is whether Transportation has the resources to maintain the level of expertise capable of adapting to the changing infrastructure environment. There are two potential approaches to this issue. The first assumes Transportation has the expertise and the resources to understand the changing infrastructure and can therefore specifically address all security needs. The second approach requires that Transportation explain in detail, to VITA, the security needs for each of its systems and databases along with what access controls it currently provides.. VITA then must provide the Commissioner assurance that the infrastructure provides the level and depth of security necessary to meet state policy.

Under this second approach, VITA and the Commissioner clearly share responsibility for the security of information and databases. It is our opinion that while Transportation may currently have the resources to undertake the first approach, the long-term change at VITA dictates that the Commissioner use the second approach. Transportation should continue developing a MOU with VITA to define the security levels required for their data and require that VITA provide, at least annually, written assurance so the Commissioner and Transportation can fulfill their responsibilities related to security requirements.

Department of Motor Vehicles

Timely Delete Employee Time Records

Motor Vehicles did not delete employee time records timely upon termination. When an employee terminates employment, the supervisor or section manager does not always specifically notify the payroll office to delete the former employee from the payroll system. As a result, the employee's time record remained active in the Commonwealth Integrated Personnel/Payroll System (CIPPS) for several months. The Department of Motor Vehicles uses a termination check-off list; however, the Payroll Department requires additional and separate notification from the specific department to remove terminated employees from payroll processing. Continued payroll processing of terminated employees could lead to incorrect payments and incorrect reporting of state and federal taxes.

Motor Vehicles should amend the termination checklist to include the required specific departmental notification of terminated employees and the applicable termination date to the Payroll Department. Additionally, the Payroll Department should incorporate periodic review of detailed payroll reports, looking specifically for employee records with zero dollar amounts, as well as any other unusual payroll record occurrences. Upon such findings, Payroll Department staff should follow up and resolve these discrepancies with the applicable departments prior to onset of the next review period.

Obtain Written Exemption from 1500-Hour Rule

The Department of Human Resources Management (DHRM) Policies and Procedures Manual states that wage employees are limited to working 1500 hours in an agency year, which is equivalent to full-time employment over a 365-day period. The agency must obtain approval from the Cabinet Secretary if they wish to exempt a wage employee from this rule.

Because of Motor Vehicles' heavy customer service function, the agency's Cabinet Secretary granted verbal permission to permit wage employees to work more than 1500 hours in an agency year. The exception provided for blanket permission to exceed the rule and applied to all departments within the agency, not just the Customer Service Centers.

Motor Vehicles should have a written rather than verbal Cabinet Secretary's exemption from the DHRM 1500-hour rule. Written authorization will reduce any confusion as to existence of the exemption.

This authorization should be more directed in nature and apply only to specific administrations within the agency.

Improve IT Security Standards and Guidelines

Motor Vehicles does not have an adequate IT Security Standards and Guidelines manual. Industry standard suggests that policies and procedures, detailing active controls, are an integral part of any information security environment. Written policies and procedures provide accountability between management and staff and they provide clear documentation of defined controls, which will provide ease of transition during separation of key information technology employees.

Motor Vehicles should consider ensuring the existence and adequacy of general system security policies and procedures. All policies should be documented and readily accessible to necessary agency personnel. Such policies include, but are not limited to, procedures for adding, removing, or modifying user access to agency systems. Additionally, policies should include security standards for operating systems.

Motor Vehicles should also consider revising and updating the IT Security Standards and Guidelines policy manual. This document is dated November 1, 2002 and appears to be in its original draft. Motor Vehicles should consider updating this document to include current staff, stronger password constraints, and update the various sections that are under development.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

December 14, 2005

The Honorable Mark R. Warner
Governor of Virginia
State Capital
Richmond VA

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, VA

We have audited the financial records and operations of the **Agencies of the Secretary of Transportation** for the year ended June 30, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of the 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, 2005 and test compliance for the Statewide Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System and in these Agencies' accounting records, reviewed the adequacy of these Agencies' internal control, and tested compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

These Agencies' management have 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.

We performed audit tests to determine whether 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 review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Revenue and Receivables (taxes, vehicle registrations, licenses)
- Transportation Trust Fund Activity (collections, allocation, expenses)
- Long-Term Debt
- Federal Grants and Contracts
- Expenses and Payables, including Payroll

We performed audit tests to determine whether these 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, and contracts, and observation of Agency operations. We tested transactions and performed such other auditing procedures, including budgetary and trend analyses.

Audit Conclusions

We found that these Agencies properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. These Agencies record their 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 and other Agency financial systems.

We noted certain matters involving internal control and its operation that that require management's attention and corrective action. These matters are described in the section entitled "Internal Control Findings and Recommendations." These conditions include:

Virginia Department of Transportation

- Timely delete terminated employee access
- Obtain assurance over security and information technology infrastructure

Department of Motor Vehicles

- Timely delete employee time records
- Obtain written exemption from 1500-hour rule
- Improve IT Security Standards and Guidelines

These 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 each agency during exit conferences held the weeks of December 12th and 19th. Managements' responses have been included at the end of this report.

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

NJG:whb

COMMONWEALTH of VIRGINIA

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

GREGORY A. WHIRLEY
ACTING COMMISSIONER

December 19, 2005

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski,

Thank you for allowing me the opportunity to comment on the FY 2005 Commonwealth Transportation Fund report. As you found, the Department of Transportation has made significant improvements in its financial operations and controls. I am pleased that the report contains no findings or recommendations in this regard, including asset accounting.

Your report's findings and recommendations for the Department highlight the complexities state agencies are facing with their technology infrastructure managed by a separate authority and defining these shared responsibilities. The Department of Transportation has been a leader in forging this new relationship, including the signing of the first detailed memorandum of agreement between VITA and an operating agency.

I will be formally communicating a copy of this report to VITA and the CIO. We are already scheduled to complete the next phases of the MOU and revisit the first phase by June 30, 2006. As part of that effort, I will request that VITA make the appropriate assurances to me.

VDOT's existing policy regarding user access will also be reviewed and revised as necessary by April 30, 2006. VDOT's CIO will be reporting to me each month on our progress.

Sincerely,

Gregory A. Whirley

Gregory A. Whirley

100 YEARS OF TRANSPORTATION EXCELLENCE
1906 - 2006

COMMONWEALTH of VIRGINIA
Department of Motor Vehicles
2300 West Broad Street

D. B. Smit
Commissioner

Post Office Box 27412
Richmond, VA 23269-0001
866-DMV-LINE or
800-435-5137

December 13, 2005

Mr. Walter J. Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, VA 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, 2005. We have made great strides this year and have many on-going projects and I appreciate your recognition of our progress in this report.

Attached are the corrective action plans we have developed in response to your findings. Please let me know if you have any questions or concerns.

Sincerely,

D. B. Smit

Enclosure

Fax: (804) 367-6631 TDD: 1-800-272-9268 E-mail: commish@dmv.virginia.gov Web site: www.dmvNOW.com

APA Finding – Obtain written exemption from 1500 hour rule

DMV Corrective Action Plan:

In the short-term a procedure was adopted for the coordination between the Human Resources Office and the Payroll Department to review the cumulative number of wage hours earned by all DMV wage employees following each pay period. For those individuals that have earned 1300 hours, HR notifies the respective management area. This affords them the opportunity to adjust work schedules if possible. HR assists management with the necessary documentation for the Secretary to request an exemption from the DHRM 1500-hour rule, when deemed necessary. This process was implemented in August 2005.

Our long-term solution is to develop and implement an automated time and attendance system. The automated system will indicate the cumulative number of hours wage employees have worked each pay period. DMV plans to implement this system in January 2007.

Responsible Executive:	Richard Hollowell, Assistant Commissioner
Completion date:	August 2005, for short-term solution January 2007 for the implementation of the automated time and attendance system

APA Finding – Improve IT Security Standards and Guidelines

DMV Corrective Action Plan:

DMV/VITA will improve and update the IT Security Standards and Guidelines. We will make changes to include current staff and stronger password constraints, as well as increasing the scope of the standards to include the CSCNet UNIX environment. We will also update the sections that are "under development".

To accomplish this by our projected completion date of October 2006, DMV will incorporate IT Security oversight responsibilities among its current resources to guide our activities. We anticipate having these functions assigned by January 2006.

Responsible Executive:	Dave Burhop, Chief Information Officer
Completion date:	October 2006

DEPARTMENT OF MOTOR VEHICLES
RESPONSE AND CORRECTIVE ACTION PLAN
COMMONWEALTH TRANSPORTATION FUND AGENCIES OF THE SECRETARY OF TRANSPORTATION
FOR FISCAL YEAR ENDED JUNE 30, 2005

APA Finding - Timely delete employee time records

DMV Corrective Action Plan:

A wage employee was not terminated from CIPPS because the HRO-13, Termination of Employment Form, was not submitted. This employee has been terminated and there was no improper payment made due to the oversight.

In the short-term to ensure this does not happen in the future, the Payroll Office will request special reports from CIPPS, on a semi-annual basis, to assist in monitoring terminated employees, and work with department supervisors to ensure timely submission of the termination forms. This will begin with the January 2006 special report.

Our long-term solution is to develop and implement an automated time and attendance system. The automated system will indicate when employees have no attendance record that will alert Payroll to question the status of the employee. DMV plans to implement this system in January 2007.

Implementing these changes will ensure that employees are properly classified with terminated status in CIPPS, reduce the potential of making erroneous payroll payments, and preserve the integrity and accuracy of the Department of Motor Vehicles' payroll data.

Responsible Executive:	Jack Christian, Controller
Completion date:	January 2006, for short-term solution January 2007 for the implementation of the automated time and attendance system

SECRETARIAT OFFICIALS

Secretary of Transportation
Pierce R. Homer

Department of Transportation
Gregory A. Whirley, Acting Commissioner

Department of Motor Vehicles
Demerst B. Smit, Commissioner

Department of Rail and Public Transportation
Karen J. Rae, Executive Director

Department of Aviation
Randall P. Burdette, Director

Motor Vehicle Dealer Board
Bruce Gould, Executive Director

Virginia Port Authority
J. Robert Bray, Executive Director

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Hugh B. McCreight	Jimmy Whitten
Jim Mercer	Robert W. Woodall, Jr.

Thomas Woodson

VIRGINIA PORT AUTHORITY

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E. Massie Valentine, Jr., Vice Chairman

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William M. Grace	Ranjit K. Sen
Jonathan J. Johnson	Deborah K. Stearns

Jody M. Wagner, State Treasurer

AGENCIES OF THE SECRETARY OF TRANSPORTATION
SUMMARY FINANCIAL INFORMATION
SOURCES AND USES
For Fiscal Years 2005 and 2004

Resources and Uses	Secretary 2005	Secretary 2004	Motor Vehicles 2005	Motor Vehicles 2004	Transportation 2005	Transportation 2004
Resources:						
General fund appropriations	$ -	$ -	$ -	$ -	$ 317,439,911	$ 122,929,586
Federal grants and contracts	-	-	17,282,401	11,655,801	452,051,104	635,805,292
Taxes	-	-	1,168,703,510	1,160,523,630	644,307,429	609,984,827
Fees, licenses, and permits	-	-	380,035,108	377,013,953	32,309,028	33,405,575
Tolls	-	-	-	-	58,522,008	56,928,031
Fines and assessments	-	-	27,774,956	24,471,842	44,382	27,005
Interest, dividends, and rents	-	-	130,181	14,974	28,560,400	21,829,444
Bond proceeds	-	-	-	-	347,828,244	4,679,309
Other	-	-	423,536	326,123	59,012,386	29,215,724
Receipts from cities, counties and towns	-	-	-	-	84,464,890	55,904,551
Transfers	613,672	558,751	(1,374,295,700)	(1,365,965,018)	1,321,272,025	1,239,092,436
Total resources	$ 613,672	$558,751	$ 220,053,992	$ 208,041,305	$3,345,811,807	$2,809,801,781
Uses:						
Administrative	$ 613,672	$558,751	$ 50,000,388	$ 35,052,138	$ 222,285,395	$ 97,581,274
Highway acquisition and construction	-	-	-	-	991,372,698	1,226,538,754
Highway acquisition and construction through bond proceeds	-	-	-	-	114,164,678	-
Highway maintenance	-	-	-	-	1,026,502,232	879,460,577
Financial assistance to localities	-	-	38,300,627	36,324,717	279,823,458	259,646,782
Vehicle and driver regulation	-	-	110,345,563	125,849,219		-
Toll Facilities	-	-	-	-	41,238,594	37,982,558
Debt service, principal and interest	-	-	-	-	221,107,850	223,071,403
Construction and maintenance of ports	-	-	-	-		-
Rail and public transportation	-	-	-	-		-
Aviation	-	-	-	-		-
Payments to trustees						
Other uses	-	-	8,812,161	8,170,166	43,951,074	24,839,085
Total uses	613,672	558,751	207,458,739	205,396,240	2,940,445,979	2,749,120,433
Exess (shortage) resources over uses	$ -	$ -	$ 12,595,253	$ 2,645,065	$ 405,365,827	$ 60,681,348

Source: Commonwealth Accounting and Reporting System - Cash Basis

Note: The Virginia Port Authority is excluded because it is a Component Unit of the Commonwealth, has financial activity outside of CARS through Virginia International Terminals, Inc. (VIT), and we release a separate report on VPA's financial statements.

Aviation 2005	Aviation 2004	DRPT 2005	DRPT 2004	Dealer Board 2005	Dealer Board 2004	Total Secretary 2005	Total Secretary 2004
$ 44,067	$ 48,137	$ -	$ -	$ -	$ -	$ 317,483,978	$ 122,977,723
267,488	90,570	33,295,587	16,765,592	-	-	502,896,580	664,317,255
29,845,765	27,412,453	113,201,247	109,410,893	-	-	1,956,057,951	1,907,331,803
574,518	579,284	2,972,362	3,003,363	1,697,286	1,818,297	417,588,302	415,820,472
-	-	-	-	-	-	58,522,008	56,928,031
727	673	4,451	4,120	-	-	27,824,516	24,503,640
565,283	340,521	985,783	753,456	33,789	25,754	30,275,436	22,964,149
-	-	-	-	-	-	347,828,244	4,679,309
489,259	3,613,573	-	981	214,938	221,684	60,140,119	33,378,085
-	-	544,595	354,987	-	-	85,009,486	56,259,538
(2,668,188)	(3,616,742)	87,900,775	30,599,805	(186,100)	(374,659)	32,636,484	(99,705,427)
$29,118,918	$28,468,469	$238,904,801	$160,893,197	$ 1,759,913	$ 1,691,076	$3,836,263,103	$3,209,454,578
$ 848,807	$ 708,059	$ 1,492,821	$ 1,286,781	$ 1,654,777	$ 1,621,750	$ 276,895,859	$ 136,808,753
-	-	-	-		-	991,372,698	1,226,538,754
-	-	-	-			114,164,678	-
-	-	-	-		-	1,026,502,232	879,460,577
-	-	-	-		-	318,124,085	295,971,499
-	-	-	-		-	110,345,563	125,849,219
-	-	-	-		-	41,238,594	37,982,558
-	-	-	-		-	221,107,850	223,071,403
-	-	-	-		-	-	-
-	-	185,561,348	158,723,446		-	185,561,348	158,723,446
24,825,053	20,145,569		-		-	24,825,053	20,145,569
						-	-
			-			52,763,235	33,009,251
25,673,860	20,853,628	187,054,169	160,010,227	1,654,777	1,621,750	3,362,901,196	3,137,561,029
$ 3,445,058	$ 7,614,841	$ 51,850,632	$ 882,970	$ 105,136	$ 69,326	$ 473,361,907	$ 71,893,549

COMMONWEALTH OF VIRGINIA - DEPARTMENT OF ACCOUNTS
HIGHWAY MAINTENANCE AND OPERATING FUND
AND TRANSPORTATION TRUST FUND REVENUES
STATEMENT OF REVENUE ESTIMATES AND COLLECTIONS
For Fiscal Years 2005 and 2004
(Dollars in Thousands)

Revenue:	FY 2005 Estimate	As a % of Total Fund	June FY 2005	June FY 2004	June % Change
Motor fuel taxes	$ 858,900.00	27.96	$ 136,987.00	$ 146,214.00	(6.31)
Priority transportation fund	20,000.00	0.65	2,000.00	2,000.00	-
Motor vehicle sales and use tax	620,300.00	20.19	60,088.00	57,011.00	5.40
State sales and use tax	437,600.00	14.24	44,090.00	37,887.00	16.37
Motor vehicle license fees	165,700.00	5.40	16,431.00	15,067.00	9.05
International registration plan	57,400.00	1.87	12,154.00	8,179.00	48.60
Interest earnings	15,300.00	0.50	5,011.00	157.00	*
Misc. taxes, fees, and revenues	19,600.00	0.64	(981.00)	2,101.00	(146.69)
Total state taxes and fees	$ 2,194,800.00	71.45	$ 275,780.00	$ 268,616.00	2.67

* Percentage is greater than 1,000%.
Source: Department of Taxation

Year-To-Date			% Annual Growth Required By Estimate
FY 2005	FY 2004	% Change	
$ 849,489.00	$ 846,080.00	0.40	1.52
20,000.00	20,000.00	-	-
615,261.00	604,078.00	1.85	2.69
449,867.00	415,042.00	8.39	5.44
164,451.00	162,754.00	1.04	1.81
60,720.00	54,349.00	11.72	5.61
17,641.00	10,670.00	65.33	43.39
26,460.00	21,369.00	23.82	(8.28)
$ 2,203,889.00	$ 2,134,342.00	3.26	2.83

COMMONWEALTH OF VIRGINIA - DEPARTMENT OF ACCOUNTS
HIGHWAY MAINTENANCE AND OPERATING FUND
AND TRANSPORTATION TRUST FUND REVENUES
STATEMENT OF REVENUE ESTIMATES AND COLLECTIONS
For the Fiscal Years 2005 and 2004
(Dollars in Thousands)

Revenue	FY 2005 Estimate	As a % of Total Fund	June FY 2005	June FY 2004
Highway Maintenance and Operating Fund:				
Motor Fuel Taxes (Includes Road Tax)	737,300.00	24.00	117,137.00	127,126.00
Motor Vehicle Sales and Use Tax	398,500.00	12.97	38,618.00	36,629.00
Motor Vehicle License Fees	144,800.00	4.72	14,370.00	13,072.00
International Registration Plan	57,400.00	1.87	12,154.00	8,179.00
Misc. Taxes, Fees, and Revenues	19,600.00	0.64	(981.00)	2,101.00
Total state taxes and fees	1,357,600.00	44.20	181,298.00	187,107.00
Other revenues:				
Federal grants and contracts	-	-	3,136.00	1,061.00
Transfer (to) / from transportation trust fund	244,600.00	7.96	-	-
Total highway maintenance and operating Fund	1,602,200.00	52.16	184,434.00	188,168.00
Transportation trust fund:				
Motor fuel taxes (includes aviation and road taxes)	121,600.00	3.96	19,850.00	19,088.00
Priority transportation fund	20,000.00	0.65	2,000.00	2,000.00
Motor vehicle sales and use tax (includes rental tax)	221,800.00	7.22	21,470.00	20,382.00
State sales and use tax	437,600.00	14.24	44,090.00	37,887.00
Motor vehicle license fees	20,900.00	0.68	2,061.00	1,995.00
Interest earnings	15,300.00	0.50	5,011.00	157.00
Total state taxes and fees	837,200.00	27.25	94,482.00	81,509.00
Other revenues:				
Federal grants and contracts	764,800.00	24.90	43,640.00	31,937.00
Receipts from cities/counties	43,700.00	1.42	687.00	493.00
Toll revenues (includes route 28)	63,000.00	2.05	14,758.00	5,175.00
Miscellaneous revenues	5,500.00	0.18	(398.00)	1,881.00
Total other revenues	877,000.00	28.55	58,687.00	39,486.00
Transfer (to) / from highway maintenance and operating fund	(244,600.00)	(7.96)	-	-
Total transportation trust fund	1,469,600.00	47.84	153,169.00	120,995.00
Total highway maintenance and operating fund and transportation trust fund	3,071,800.00	100.00	337,603.00	309,163.00

* Percentage is greater than 1,000%.
Source: Department of Taxation

Year-To-Date				% Annual Growth Required By Est
% Change	FY 2005	FY 2004	% Change	
(7.86)	730,370.00	727,945.00	0.33	1.29
5.43	395,924.00	388,736.00	1.85	2.51
9.93	143,867.00	142,242.00	1.14	1.80
48.60	60,720.00	54,349.00	11.72	5.61
(146.69)	26,460.00	21,369.00	23.82	(8.28)
(3.10)	1,357,341.00	1,334,641.00	1.70	1.72
195.57	29,360.00	13,419.00	118.79	(100.00)
-	194,977.00	56,902.00	242.65	329.86
(1.98)	1,581,678.00	1,404,962.00	12.58	14.04
3.99	119,119.00	118,135.00	0.83	2.93
-	20,000.00	20,000.00	-	-
5.34	219,337.00	215,342.00	1.86	3.00
16.37	449,867.00	415,042.00	8.39	5.44
3.31	20,584.00	20,512.00	0.35	1.89
*	17,641.00	10,670.00	65.33	43.39
15.92	846,548.00	799,701.00	5.86	4.69
36.64	455,987.00	639,152.00	(28.66)	19.66
39.35	25,635.00	31,701.00	(19.14)	37.85
185.18	111,551.00	74,564.00	49.60	(15.51)
(121.16)	27,191.00	18,346.00	48.21	(70.02)
48.63	620,364.00	763,763.00	(18.78)	14.83
-	(194,977.00)	(56,902.00)	(242.65)	(329.86)
26.59	1,271,935.00	1,506,562.00	(15.57)	(2.45)
9.20	2,853,613.00	2,911,524.00	(1.99)	5.50

MAJOR STATE TRANSPORTATION REVENUE SOURCES

Gasoline Motor Fuels Taxes

Highway Maintenance and Operating Fund	$.1486
Transportation Trust Fund	.0250
Department of Motor Vehicles	.0014
Total (per gallon)	$.1750

Motor Vehicle Sales and Use Tax

Highway Maintenance and Operating Fund	2.00%
Transportation Trust Fund	1.00%
Total	3.00%

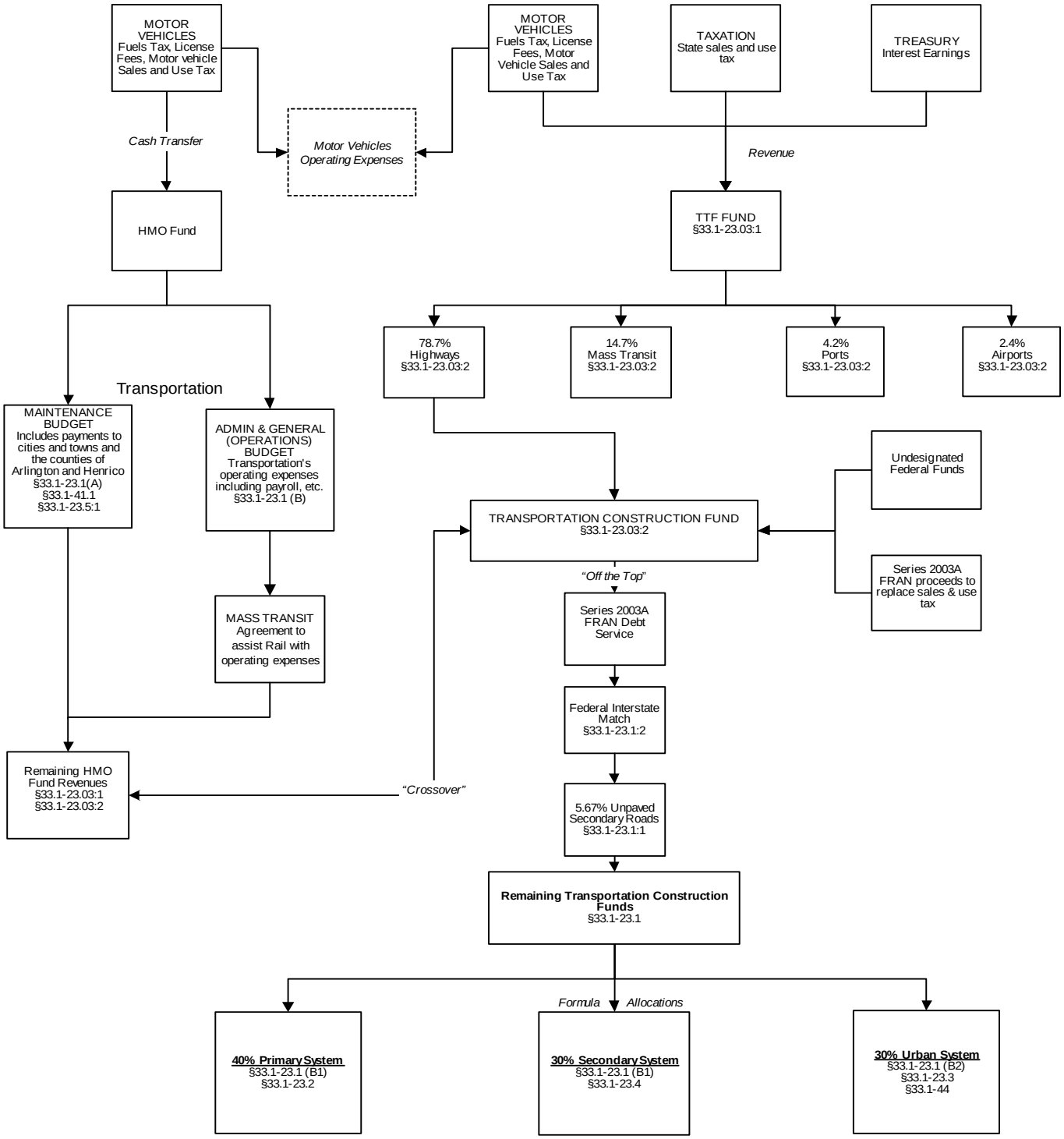
Motor Vehicle License Fee

Highway Maintenance and Operating Fund	$16.00
Department of Motor Vehicles	4.00
Transportation Trust Fund	3.00
General Fund/Emergency Management Services/Rescue Squad	4.00
State Police	1.50
Jamestown/Yorktown Foundation	1.00
Total	$29.50

State General Sales and Use Tax

Transportation Trust Fund	.5%

Appendix D

COMMONWEALTH TRANSPORTATION FUND

Highway Maintenance and Transportation Trust Funds