



# MOTOR VEHICLE DEALER BOARD

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF FEBRUARY 2024

Auditor of Public Accounts  
Staci A. Henshaw, CPA

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# Commonwealth of Virginia

## Auditor of Public Accounts

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Auditor of Public Accounts

P.O. Box 1295  
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April 29, 2024

William Childress, Executive Director  
Motor Vehicle Dealer Board  
2201 West Broad Street, Suite 104  
Richmond, Virginia 23220

### INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Motor Vehicle Dealer Board** (Dealer Board). We completed the review on February 28, 2024. The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Dealer Board is responsible for establishing and maintaining an effective control environment.

#### Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The "Review Procedures" section below details the procedures performed for the Dealer Board. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

## **Review Procedures**

We evaluated the agency's corrective action for all prior review findings. The agency has taken adequate corrective action with respect to review findings reported in the prior review that are not repeated in the "Review Results" section below.

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment for the Dealer Board. Our review of Dealer Board's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the Dealer Board's process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; expenses; procurement; capital assets; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are effectively designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process.

As a result of these procedures, we noted areas that require management's attention. These areas are detailed in the "Review Results" section below.

## **Review Results**

We noted the following areas requiring management's attention resulting from our review:

- **Repeat** – The Dealer Board could not provide evidence that it reviewed and properly approved payroll certifications from July 2022 to May 2023. However, since May 2023, the Dealer Board has begun to implement corrective action by documenting its review of monthly payroll expenditures. Additionally, the Dealer Board could not provide evidence that one payroll transaction selected for review was properly reviewed and approved. The Dealer Board could also not provide evidence that it approved and properly calculated an employee's leave payout. As outlined in the memorandum of understanding (MOU) with the Department of Motor (Motor Vehicles), the Payroll Service Bureau and/or Motor Vehicles shall store the payroll documents for audit purposes and be available when requested. The Dealer Board should ensure that its service providers are maintaining the appropriate supporting documentation for transactions they perform on behalf of the Dealer Board and that this supporting documentation is readily available.

- **Partial Repeat** – The Dealer Board has formal, documented policies and procedures over many of its significant business processes. However, during our review, we identified several areas where the Dealer Board should develop or expand policies and procedures to maintain an effective control environment. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905 and other sections of the manual require each agency to “publish its own policies and procedures documents, approved in writing by agency management.” Management should ensure detailed policies and procedures exist for all critical business areas. Management should consistently update the policies and procedures and ensure they are readily available to all staff.
- **Partial Repeat** – The Dealer Board does not meet the minimum requirements of Accounts’ ARMICS standards. The Dealer Board relies on Motor Vehicles’ assessment of internal controls to support ARMICS compliance for those functions outlined in the MOU. However, the MOU does not contain an expectation of the completion and documentation of ARMICS that Motor Vehicles or Dealer Board will provide. Not including such information in the MOU increases the risk of a potential misunderstanding of the extent of ARMICS testing between the agencies. While the Dealer Board has continued to improve this process and reporting without an updated MOU with Motor Vehicles, we determined that Motor Vehicles did not document or test all agency-level and transaction-level controls for all significant fiscal processes for which it is responsible. CAPP Manual Topic 10305 requires agencies to document, evaluate, and test all agency-level and transaction-level controls. The Dealer Board should clarify this expectation and include the details within the MOU. As the Dealer Board annually certifies that it has adequately assessed the effectiveness of its own internal controls and that it has assessed its own agency-level risks as part of ARMICS, the Dealer Board should ensure completion of all requirements of ARMICS and retain documentation as evidence.
- **Partial Repeat** – The Dealer Board did not remove system access timely for one employee tested. The off-boarding checklist and system access removal form utilized by the Dealer Board indicated that the supervisor removed system access five days after the employee’s separation date. The Commonwealth’s Information Security Standard, SEC 501, requires the removal of systems access within 24 hours of the employee’s separation. The Dealer board should remove system access within 24 hours of the employee’s separation.
- **Repeat** – The Dealer Board did not fully document who performs each step of the physical counting and recording of inventory. The Dealer Board provided their latest inventory that included a signature for the completion of the inventory, but the supporting documentation did not provide evidence showing that adequate separation of duties exist between who is responsible for counting and recording the inventory. CAPP Manual Topic 30515 requires agencies to ensure the performance of each of these functions by separate individuals. The Dealer Board should modify its inventory process to ensure adequate separation of duties exists and that proper documentation is available.

- Dealer Board relies on Motor Vehicles to perform most of its administrative and financial functions based on an MOU established between the two agencies. The two agencies last updated the current MOU in 2016 and the MOU does not clearly define the responsibilities of both parties in many areas. The Dealer Board should maintain an up-to-date MOU and ensure there are clearly defined responsibilities for both parties in all areas covered by the MOU.

We discussed these matters with management on March 7, 2024. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report. In the agency response, management noted that they were not aware of the policies and procedures that need improvement. This information was provided to management during our review and management has since acknowledged receipt of this information but did not wish to provide a revised response.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Staci A. Henshaw  
Auditor of Public Accounts

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## COMMONWEALTH of VIRGINIA

### *Motor Vehicle Dealer Board*

May 21, 2024

Staci Henshaw, Director  
Auditor of Public Accounts (APA)  
101 North 14<sup>th</sup> Street, 8<sup>th</sup> Floor  
Richmond, VA 23219

Director Henshaw:

Below you will find the Motor Vehicle Dealer Board's (Board) responses to the ICQ Results Letter dated April 29, 2024. I have listed the findings identified by your auditors and our agency response to the findings.

- **Repeat** – The Dealer Board could not provide evidence that it reviewed and properly approved payroll certifications from July 2022 to May 2023. However, since May 2023 the Dealer Board has begun to implement corrective action by documenting their review of monthly payroll expenditures. Additionally, the Dealer Board could not provide evidence that one payroll transaction selected for review was properly reviewed and approved. The Dealer Board could also not provide evidence that it approved and properly calculated an employee's leave payout. As outlined in the memorandum of understanding (MOU) with the Department of Motor (Motor Vehicles), the Payroll Service Bureau and/or Motor Vehicles shall store the payroll documents for audit purposes and be available when requested. The Dealer Board should ensure that their service providers are maintaining the appropriate supporting documentation for transactions they perform on behalf of the Dealer Board and that this supporting documentation is readily available.

Agency Response – The Dealer Board started reviewing and approving payroll prior to certification in September 2021. The Board has shown and can show proof of certifying the payroll for classified and wage grade employees prior to July 2022 and after May 2023. During the period of July 2022 – May 2023, the Board did not receive pre-payroll certification notifications from Motor Vehicles or the DOA due to implementation challenges (Cardinal) experienced by the Board, Motor Vehicles and DOA during the period in question.

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- **Partial Repeat** – The Dealer Board has formal, documented policies and procedures over many of its significant business processes. However, during our review, we identified several areas where the Dealer Board should develop or expand policies and procedures to maintain an effective control environment. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905 and other sections of the manual requires each agency to “publish its own policies and procedures documents, approved in writing by agency management.” Management should ensure detailed policies and procedures exist for all critical business areas. Management should consistently update the policies and procedures and ensure they are readily available to all staff.

Agency Response – Can more details and specificity be provided regarding the areas where the Dealer Board should develop or expand policies and procedures to maintain an effective control environment? We want to address this, but we are not clear of the areas requiring development or expansion.

- **Partial Repeat** – The Dealer Board does not meet the minimum requirements of Accounts’ ARMICS standards. The Dealer Board relies on Motor Vehicles’ assessment of internal controls to support ARMICS compliance for those functions outlined in the MOU. However, the MOU does not contain an expectation of the completion and documentation of ARMICS that Motor Vehicles or Dealer Board will provide. This risks a lack of clarity and potential misunderstanding of the extent of ARMICS testing between the agencies. While the Dealer Board has continued to improve this process and reporting without an updated MOU with Motor Vehicles, we determined that Motor Vehicles did not document or test all agency level and transaction level controls for all significant fiscal processes for which it is responsible. CAPP Manual Topic 10305 requires agencies to document, evaluate, and test all agency-level and transaction level controls. The Dealer Board should clarify this expectation and include the details within the MOU. As the Dealer Board annually certifies that it has adequately assessed the effectiveness of its own internal controls and that it has assessed its own agency-level risks as part of ARMICS, the Dealer Board should ensure completion of all requirements of ARMICS and retain documentation as evidence.

Agency Response – The Dealer Board is working with Motor Vehicles to update the MOU agreement between the two agencies.

- **Partial Repeat** – The Dealer Board did not timely remove systems access for one employee tested. The off-boarding checklist and system access removal form utilized by the Dealer Board indicated that the supervisor removed system access five days after the employee’s separation date. The Commonwealth’s Information Security Standard, SEC 501, requires the removal of systems access within 24 hours of the employee’s separation. The Dealer board should remove system access within 24 hours of the employee’s separation.



Agency Response – The Dealer Board will be more vigilant in this area. We remove employees access to agency maintained systems during the departing employee's last workday. We will start notifying VITA to remove employees from COV system at least two weeks (if known) prior to employee's last workday.

- **Repeat** – The Dealer Board did not fully document who performs each step of the physical counting and recording of inventory. The Dealer Board provided their latest inventory that included a signature for the completion of the inventory, but the supporting documentation did not provide evidence showing that adequate separation of duties exist between who is responsible for counting and recording the inventory. CAPP Manual Topic 30515 requires agencies to ensure the performance of each of these functions by separate individuals. The Dealer Board should modify its inventory process to ensure adequate separation of duties exists and that proper documentation is available.

Agency Response – To correct this deficiency the inventory procedure is being evaluated and will be adjusted to ensure proper separation of duties while doing inventory.

- **Repeat** – Dealer Board relies on Motor Vehicles to perform most of its administrative and financial functions based on a (MOU) established between the two agencies. The two agencies last updated the current MOU in 2016 and the MOU does not clearly define the responsibilities of both parties in many areas. The Dealer Board should maintain an up-to-date MOU and ensure there are clearly defined responsibilities for both parties in all areas covered by the MOU.

Agency Response – The Board is updating the MOU with Motor Vehicles.

The Board is appreciative and respectful of the APA, its auditing staff and the APA's purpose. Going forward we hope to engage in more meaningful and productive ICQ Reviews/Inspections. The Board has a unique Human Resources and Financial Management arrangement with Motor Vehicles and it is challenging to know the CAPP Manual requirements and the gaps created by the MOU agreement. This collaborative effort will greatly benefit all parties involved.

Questions or concerns should be addressed to my attention.

Sincerely,



William R. Childress  
Executive Director