



MOTOR VEHICLE DEALER BOARD

INTERNAL CONTROL QUESTIONNAIRE

REVIEW RESULTS

AS OF

JUNE 2020

Auditor of Public Accounts
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August 5, 2020

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Motor Vehicle Dealer Board
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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 June 15, 2020. 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

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 included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of the 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 agency'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: human resources and payroll, revenues, expenses, capital assets, and information systems security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are 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:

- The Dealer Board relies on the Department of Motor Vehicles (Motor Vehicles) to perform most of its administrative functions based on a memorandum of understanding (MOU) established between the two agencies. However, the Dealer Board does not maintain documented and up-to-date policies and procedures for all critical processes for which the Dealer Board is responsible. Additionally, most of the Dealer Board's existing policies and procedures do not contain written evidence of management's review and approval. As Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual state that each agency needs to "publish its own policies and procedures documents, approved in writing by agency management," the Dealer Board should establish formally documented procedures over all critical business processes and ensure evidence of management's review and approval is present.
- Motor Vehicles prepares and sends submissions to Accounts disclosing the financial position and activity of the Dealer Board, but the Dealer Board does not retain evidence of review of this information for accuracy and completeness. The State Comptroller's Directive 1-19 states that each institution is responsible for ensuring that submissions provided to Accounts result in complete and accurate information. As the Dealer Board annually certifies to the

accuracy and completeness of financial statements or information submitted on its behalf, the Dealer Board should retain documentation of review of these submissions to demonstrate compliance with this requirement.

- 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 will provide. This risks a lack of clarity and potential misunderstanding of the extent of ARMICS testing Motor Vehicles should provide. It is unclear whether Motor Vehicles provides both stage-1 agency level assessments and stage-2 transaction level control testing or only one of these elements of ARMICS. The Dealer Board should clarify this expectation and include the details within the MOU.
- Although the Dealer Board was able to provide documentation of Motor Vehicles' ARMICS testing specific to Motor Vehicles' processes, the Dealer Board could not provide documentation of an agency-level risk assessment, assessment of agency-level controls, identification of key controls, or any testing results relating to internal controls over its own processes. 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.
- The Dealer Board does not retain documentation of who performs each step of the physical counting and recording of inventory. As inventory count sheets were not signed and dated, there is no evidence that an adequate separation of duties between maintaining, counting, and recording of inventory was present. Topic 30515 of the CAPP Manual 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.
- The Dealer Board's internal process is for the Executive Director to review and approve expenses. However, only one of four vouchers selected contained evidence of the Executive Director's approval prior to sending to Motor Vehicles for processing. The Dealer Board should ensure that all expenses have the proper approval in place before sending to Motor Vehicles for processing.
- For one selected voucher, Motor Vehicles did not key the invoice into Cardinal until six months after the receipt of services. Further, the vendor was not paid for another two months after the invoice date. Section 2.2-4350 of the Code of Virginia requires agencies to promptly pay for delivered goods and services. The Dealer Board should follow up with Motor Vehicles on late and unprocessed payments to ensure the receipt of invoices and timely payments.

- As outlined in the MOU with Motor Vehicles, the Dealer Board is responsible for reviewing and authorizing the payroll certification that Motor Vehicles performs on behalf of the Dealer Board. This process was updated in the first quarter of 2020 to include copying the Executive Director on the certification to Accounts. However, during our review, there was no evidence that the Dealer Board reviewed any payroll information or affirmatively certified to the accuracy of payroll amounts. The Dealer Board should review payroll information to support its certification of accuracy and retain evidence of this review.
- The Dealer Board could not provide evidence of the completion of the proper off-boarding procedures for two selected employees who separated from the agency. The Dealer Board has a checklist and system access removal form containing the required steps it must take for each employee who separates from the agency. However, this checklist does not contain clear timelines for completion of each task, nor does it contain blanks for signatures and dates. The Commonwealth's Information Security Standard, SEC 501, Section PP-4, requires the removal of systems access within 24 hours of the employee's separation. The Dealer Board should revise its checklist and forms for separating employees to include the missing elements and require documented evidence of the completion of each off-boarding task.
- The Dealer Board could not provide evidence to show that a selected employee completed the required statement of economic interest orientation training. Chapter 31 of the Code of Virginia requires certain employees occupying positions of trust to complete a training related to conflicts of interest at least every two calendar years. This same chapter of the Code of Virginia requires agencies to keep a record of attendance to this training. The Dealer Board should maintain evidence of completion of this training as required.

We discussed these matters with management on July 22, 2020. 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.

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

Sincerely,

Martha S. Mavredes
Auditor of Public Accounts

JDE\vks



COMMONWEALTH of VIRGINIA

Motor Vehicle Dealer Board

August 24, 2020

Martha Mavredes, CPA
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Re: Motor Vehicle Dealer Board's Response to the "Results Letter", email dated August 11, 2020.

Ms. Mavredes:

Thank you for the opportunity to respond to the "Results Letter." As pointed out in the referenced document, the Motor Vehicle Dealer Board (Board) has a strong partnership with the Department of Motor Vehicles (DMV) to handle the more difficult and technical administrative functions on behalf of the Board. This is necessary because the Board, with an authorized MEL of 25, cannot perform these necessary and required functions on its own. The Board has been dependent upon the DMV for administrative support since its inception in July of 1995. Over the years, the Board's Executive Directors have established and maintained excellent business relationships with the DMV service providers, especially in the Financial Services, Human Resources, and ARMICs areas. These relationships have developed a strong reliance between the two agencies. We were extremely surprised, and dismayed at the findings of the audit team because no previous APA concerns were ever raised concerning the business processes and relationship between the two agencies and the MOU.

We will work feverishly to address and correct the findings identified by the audit team. I will not address each paragraph in the Results Letter specifically, but I will address the spirit of the findings in general.

We are reviewing all of our critical business policies and procedures. Where changes were recommended we are making them, in addition to other changes we need to make. We are working with our key partners with the DMV to develop procedures and business processes to validate Board input, participation, and awareness concerning the services they provide to us and

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the expectations desired. We have always discussed these processes, now the discussions will be documented and agreed upon by both agencies.

In the short history of the Board, the Executive Directors have always been aware of all expenditures and revenues associated with the Board. This is necessary because we are special funded and rely solely on the funding that we collect through licensing our dealers to operate the agency.

Prior to the final written report by your audit team, we have already enhanced our ARMICS processes and strengthened controls. Future audits will find ARMICS documentation readily available. Other processes we have already completed include updating our off-boarding processes, retaining proof of training documents for key management positions, processes to document joint monthly financial report discussions and a chain of command to address Board expenditures and approvals.

The audit findings included the Board being responsible for reviewing and authorizing the payroll certification that the DMV performs on behalf of the Board. The Board was never aware of this requirement, much less involved in the certification process. The Executive Director will work with the DMV Comptroller/Asst. Comptroller and the Department of Accounts to ensure that the Executive Director or his designee is able to review and sign off on the payroll before the DMV certifies.

On behalf of the agency and its Board, I would like to thank your staff for their time and report. We look forward to future, hopefully more interactive, audits.

Sincerely,



William R. Childress
Executive Director