



AUDITOR OF PUBLIC ACCOUNTS

Commonwealth of Virginia

MOTOR VEHICLE DEALER BOARD

Internal Control Questionnaire Review Results As of August 2026

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Commonwealth of Virginia

Auditor of Public Accounts

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P.O. Box 1295
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September 18, 2026

The Honorable Abigail D. Spanberger
Governor of Virginia

Joint Legislative Audit
and Review Commission

Kelley Smith
Executive Director, Motor Vehicle Dealer Board

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 August 10, 2026. 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. Further, we evaluated the Dealer Board's process for reviewing attachments submitted 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; 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 relies on the Department of Motor Vehicles (Motor Vehicles) to perform many of its financial, accounting, and human resource functions based on a memorandum of understanding (MOU) established between the two agencies. However, this MOU is out-of-date. 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. These areas include but are not limited to:

    - ARMICS
    - Capital asset management
    - Financial system reconciliations
    - Retirement system reconciliations
    - Small purchase charge card administration
    - System access review
    - System and Organization Controls report evaluation

Not including such information in the MOU increases the risk of a potential misunderstanding of the extent of responsibilities shared between the agencies. Furthermore, the Dealer Board is not monitoring Motor Vehicles to ensure it completes responsibilities in a timely manner. During our review, we identified areas where the Dealer Board did not effectively monitor or adequately document monitoring of Motor Vehicles' performance of its responsibilities. Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 10305 requires agencies to update service arrangement agreements at least annually and more frequently in the event a significant change occurs. In addition, the service agreement must ensure both parties fully understand their respective responsibilities under the MOU. The Dealer Board should continue working with Motor Vehicles to obtain and maintain an up-to-date MOU and ensure there are clearly defined responsibilities for both parties in all areas covered by the MOU. Additionally, the Dealer Board should develop a process to monitor the completion of activities performed on its behalf.

- **Repeat** – The Dealer Board has formal, documented policies and procedures over some of its significant business processes. However, during our review, we identified several critical business areas where the Dealer Board should develop or improve policies and procedures to maintain an effective control environment including but not limited to the following areas:

    - Capital asset accounting and reporting
    - Contract procurement, management, and monitoring
    - Expenses
    - Financial system reconciliations
    - Information system security
    - Journal entries
    - Payroll
    - Physical inventory
    - Revenues
    - Small purchase charge cards

    Topic 20905 and other sections of the CAPP Manual require each agency to "publish its own policies and procedures documents, approved in writing by agency management." Management should continue working to ensure detailed policies and procedures exist for all critical business areas. In addition, management should continue to develop a process to review and approve all policies and procedures either annually or as needed and retain documentation of the process.

- **Repeat** – The Dealer Board's ARMICS process does not cover the minimum requirements set by Accounts' standards and CAPP Manual Topic 10305. The Dealer Board partially relies on Motor Vehicles' assessment of internal controls to support ARMICS compliance for those functions covered by the MOU; however, the Dealer Board is still responsible for ARMICS assessments for the controls it performs. While the Dealer Board assessed some significant

fiscal processes, it did not identify, assess, and test agency-level or transaction-level control activities applicable to all significant business processes and information systems. Furthermore, we identified limited documentation and assessment over key control environment elements, information and communication, and monitoring of internal controls at the agency-level or consideration of fraud risk for all transaction-level review areas. The Dealer Board should document compliance with minimum ARMICS requirements.

- **Repeat** – The Dealer Board did not provide supporting documentation showing it fully completed the off-boarding checklist for two out of two (100%) terminated employees reviewed. Specifically, the Dealer Board did not demonstrate completion of the system access removal portion of the checklist for both employees reviewed and did not appropriately sign one of the checklists reviewed. Furthermore, the Dealer Board did not ensure system access removal within 24 hours after termination for the two terminated employees reviewed, as required by the Commonwealth's Information Security Standard, SEC530 (Security Standard). The Dealer Board should fully complete and retain terminated employee off-boarding checklists and ensure timely access removal in accordance with the agency's information technology off-boarding policy and the Security Standard.

- **Partial Repeat** – The Dealer Board did not complete a physical inventory over capital assets within the past two years as required by CAPP Manual Topic 30505. CAPP Manual Topic 30505 also requires agencies to reconcile the physical inventory listing to the Commonwealth's capital asset system and ensure the listing reflects all active assets. The Dealer Board should perform a physical inventory count at least once every two years and reconcile its physical inventory records with the Commonwealth's capital asset system to ensure proper stewardship of assets and compliance with CAPP Manual requirements.

- **Partial Repeat** – The Dealer Board relies on Motor Vehicles to perform payroll processes; however, the Dealer Board did not maintain documentation to demonstrate appropriate review and authorization of the payroll certification before certifying the accuracy of payroll as required by the MOU with Motor Vehicles. The Executive Director meets with Motor Vehicles to review payroll but only maintains documentation of the date of the discussion. The Dealer Board should update its procedures to document evidence of review and approval of payroll amounts prior to certifying payroll.

- The Dealer Board did not have proper separation of duties within information system security responsibilities. The Dealer Board did not have a designated Chief Information Officer or Chief Information Security Officer. Additionally, the Dealer Board's Information Security Officer served as a system owner. The Security Standard requires proper segregation of duties between these roles and responsibilities. The Dealer Board should delegate the role assignments in a manner that provides adequate separation of duties and does not lead to a

conflict of interests. Additionally, the Dealer Board should ensure the individuals with these roles and responsibilities have the appropriate level of training and knowledge to perform their duties.

- The Dealer Board did not review audit logs and monitor its systems within 30 days as required by the Security Standard. The Security Standard requires agencies to review information security records at least every 30 days for indications of inappropriate or unusual activity. The Dealer Board should ensure timely completion of audit logging and monitoring reviews.

- The Dealer Board did not properly track its ongoing construction costs. CAPP Manual Topic 30205 states that the agency should accumulate the ongoing construction costs in the Commonwealth's capital asset system as construction in progress (CIP) using a CIP schedule and track all costs using a CIP asset category. The Dealer Board did not maintain a CIP schedule and did not track assets by asset category. The Dealer Board should track assets in accordance with CAPP Manual requirements to properly account for construction costs.

- The Dealer Board relies on Motor Vehicles to record its subscription-based information technology arrangements (SBITAs). However, the Dealer Board did not have an established process for the identification of SBITAs. CAPP Manual Topic 31300, which references Governmental Accounting Standards Board Statement No. 96, requires agencies to determine and record the necessary accounting information in the Commonwealth's lease accounting system based on the contract to ensure proper classification of long-term and short-term SBITAs. Management should develop procedures to properly identify SBITAs and provide all relevant information to Motor Vehicles to properly record and classify SBITAs in accordance with this standard.

- The Dealer Board did not ensure individuals in positions of trust properly filed an annual financial disclosure. We identified four individuals in a position of trust who did not submit a financial disclosure form. Per § 2.2-3114 of the Code of Virginia, persons occupying positions of trust within state government or non-salaried citizen members of policy and supervisory boards shall file a disclosure statement with the Virginia Conflict of Interest and Ethics Advisory Council as a condition to assuming office or employment, and thereafter, shall file such a statement annually on or before February 2. Per § 2.2-3118.2 of the Code of Virginia, an officer or employee required to file a disclosure as a condition to assuming office or employment shall file such disclosure on or before the day such office or position of employment is assumed. Additionally, multiple individuals in positions of trust did not complete the required conflict of interest training within two years as required by § 2.2-3130 of the Code of Virginia. Management should ensure that all individuals in identified positions of trust file the appropriate disclosures upon hire or promotion, and subsequently at each annual filing. Management should also ensure that these individuals complete the required

conflict of interest training within two months of the first filing and every two years thereafter.

We discussed these matters with management on August 17, 2026. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate the accuracy of management's response, and accordingly, cannot take a position on whether it adequately addresses the issues in 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.

Sincerely,

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

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COMMONWEALTH of VIRGINIA
Motor Vehicle Dealer Board

November 5, 2026

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

Dear Staci Henshaw,

Thank you for the opportunity to respond to the Auditor of Public Accounts' results from the Internal Control Questionnaire review letter dated September 18, 2026. The Motor Vehicle Dealer Board (MVDB) sincerely appreciates the time, expertise and professionalism your staff demonstrated throughout the review process.

The MVDB values the collaborative approach taken by your team and the constructive feedback provided to help strengthen our operations. We have already addressed several of these issues and aim to resolve all of them within the next two years.

Sincerely,

Kelley Smith

Kelley Smith
Executive Director

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