



# DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2025

Auditor of Public Accounts

Staci A. Henshaw, CPA

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## AUDIT SUMMARY

Our audit of the Department of Human Resource Management (Human Resource Management) for the year ended June 30, 2025, found:

- proper recording and reporting of all transactions, in all material respects, related to the State Health Plans Program for Pre-Medicare Retirees, the Health Insurance Fund, the Local Choice Health Care Fund, the Line of Duty Act Fund, and the Workers' Compensation Fund, in the Commonwealth's accounting and financial reporting system, in Human Resource Management's accounting records, and in supplemental information and attachments submitted to the Department of Accounts (Accounts) after adjustment for the misstatements noted in the finding "Strengthen Internal Controls Over Financial Reporting;"
- one deficiency related to financial reporting that we consider to be a material weakness in internal control;
- two additional matters involving internal control and its operation requiring management's attention; however, we do not consider them to be material weaknesses; and
- no instances of noncompliance with applicable laws and regulations or other matters required to be reported under Government Auditing Standards.

In the section titled "Internal Control Findings and Recommendations," we have included our assessment of the conditions and causes resulting in the internal control findings identified through our audit as well as recommendations for addressing those findings. Our assessment does not remove management's responsibility to perform a thorough assessment of the conditions and causes of the findings and develop and appropriately implement adequate corrective actions to resolve the findings as required by Accounts in Topic 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures (CAPP) Manual. Those corrective actions may include additional items beyond our recommendation.

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## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### **Strengthen Controls Over Financial Reporting**

**Type:** Internal Control

**Severity:** Material Weakness

**First Reported:** Fiscal Year 2022

While the Department of Human Resource Management (Human Resource Management) Finance and Administration Division (Finance and Administration) made improvements from the prior year, Human Resource Management continues to strengthen internal controls over financial information submitted to the Department of Accounts (Accounts). Finance and Administration is responsible for submitting information to Accounts, including attachments and supplemental information items that Accounts uses to prepare the Commonwealth's financial statements and required disclosures. Despite the improvements, Finance and Administration submitted attachments to Accounts that contained errors, requiring resubmission.

Human Resource Management reports financial activity related to the Health Insurance Fund on the Internal Service Fund (Internal Service) and Internal Service Fund – Conversion to Government-wide Statement of Activities (Conversion) Attachments. Human Resource Management reports financial activity related to the Local Choice Health Care Fund on the Enterprise Fund (Enterprise) Attachment. Accounts uses the information in these attachments to prepare the Commonwealth's financial statements. Human Resource Management reported \$2.0 billion and \$605.4 million in claims expense for the Health Insurance Fund and Local Choice Health Care Fund, respectively, in fiscal year 2025. Finance and Administration resubmitted the attachments to correct the following errors:

- Finance and Administration incorrectly posted a manual reversing journal entry which resulted in an overstatement of claims expense of \$32.3 million and an understatement of cash by \$32.3 million on the Enterprise Attachment and an equal overstatement of cash and understatement of claims expense on the Internal Service Attachment.
- Finance and Administration incorrectly allocated program expenses for external entities in part three of the Conversion Attachment, resulting in an understatement of Direct Expenses related to Education of \$177.5 million and an overstatement of Direct Expenses related to General Government of \$178.6 million.

Human Resource Management also receives claims rebates after a lag period of approximately six to 12 months. Finance and Administration does not have documented policies and procedures for recording and reporting claims rebates, subsidies, and discounts. As a result, Finance and Administration reported five quarters of claims rebates in fiscal year 2025, understating claims expense and requiring a \$41.2 million adjustment on the Internal Service Attachment and a \$15.5 million adjustment on the Enterprise Attachment.

Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905 states that agency management is responsible for instituting internal control over the recording of financial transactions that is designed to provide reasonable assurance regarding the reliability of those records. Human Resource Management's financial activity is material to the Commonwealth's financial statements; therefore, it is essential for the agency to have strong internal controls and financial reporting practices. Insufficient internal control increases the risk that Human Resource Management reports inaccurate information in the Commonwealth's financial statements.

During fiscal year 2025, Finance and Administration hired two new Finance staff to fill vacant positions and reviewed and revised its written policies and procedures. Although Human Resource Management continues to allocate additional resources and implement new controls over financial reporting, these controls require time to mature. The reversing journal entry and allocation errors occurred because Finance and Administration did not follow existing policies and procedures. As stated above, the claims rebate error occurred because Finance and Administration does not have documented policies related to claims rebates, subsidies, and discounts.

Human Resource Management should continue to ensure staffing levels are adequate for Finance and Administration. Additionally, Finance and Administration should continue to review and improve its written policies and procedures to ensure they provide adequate instruction to report financial information accurately and completely. Lastly, Finance and Administration should collaborate with Accounts prior to its submission deadlines to seek assistance when needed.

### **Improve Controls Over Health Insurance Premium Revenue Reconciliations**

**Type:** Internal Control

**Severity:** Significant Deficiency

**First Reported:** Fiscal Year 2024

Finance and Administration should continue to improve its policies and procedures for preparing monthly health insurance premium revenue reconciliations. Each month, Finance and Administration performs a revenue reconciliation of the premium revenue recorded in the Commonwealth's accounting and financial reporting system. However, the current policies are insufficient because they do not include procedures for reconciling actual health insurance enrollment figures from the Commonwealth's human resource and payroll management system to the revenue recorded in the Commonwealth's accounting and financial reporting system. Further, Finance and Administration did not investigate and explain significant reconciling differences between the two sources.

CAPP Manual Topic 20905 requires agency management to institute internal control over the recording of financial transactions that is designed to provide reasonable assurance regarding the reliability of those records. Additionally, it requires agencies to "publish [their] own internal policies and procedures documents, approved in writing by agency management. The lack of complete and up-to-

date internal policies and procedures, customized to reflect the agency’s staffing, organization, and operating procedures, reflects inadequate internal control.”

Human Resource Management’s financial activity is material to the Commonwealth’s financial statements, so it is essential for the agency to have strong internal controls. Without sufficient policies and procedures, Finance and Administration increases the risk of not detecting potential issues or errors in recording health insurance premium revenue. During fiscal year 2025, Finance and Administration hired two new Finance staff to fill vacant positions and reviewed and revised its written policies and procedures. However, Finance and Administration omitted the procedures for reconciling actual health insurance enrollment figures from the Commonwealth’s human resource and payroll management system.

Finance and Administration should continue to improve policies and procedures over its monthly premium revenue reconciliations by documenting the process for reconciling actual health insurance enrollment figures from the Commonwealth’s human resource and payroll management system to the premium revenue recorded in the Commonwealth’s accounting and financial reporting system. The procedures should also define a threshold over which reconciling differences are considered significant and specify actions the preparer should take in the case of significant reconciling differences between the two sources.

### **Improve Third-Party Service Provider Oversight**

**Type:** Internal Control

**Severity:** Significant Deficiency

**First Reported:** Fiscal Year 2024

Human Resource Management relies on service providers to administer benefits provided under the State Health Insurance Plan, the Local Choice Health Plan, the Line of Duty Act Plan, and the Workers’ Compensation Program. Human Resource Management could not provide completed system and organization controls (SOC) assessments for the service providers that administer benefits on Human Resource Management’s behalf.

SOC reports, specifically SOC 1, Type 2 reports, provide an independent description and evaluation of the operating effectiveness of service providers’ internal controls over financial processes and are a key tool in gaining an understanding of a service provider’s internal control environment and maintaining oversight over outsourced operations. Human Resource Management contracts with a vendor to perform annual reviews of relevant SOC reports and provide an assessment through a report checklist. Human Resource Management reviews the SOC report assessments provided by the vendor.

CAPP Manual Topic 10305 requires agencies to have adequate interaction with service providers to appropriately understand the service provider’s internal control environment. Agencies must also

maintain oversight of service providers to gain assurance over outsourced operations. Agencies must annually certify to Accounts that they maintained oversight of service providers through review of SOC reports.

Human Resource Management did not perform a review of the SOC reports because its policies do not clearly define a timeframe for obtaining and reviewing SOC reports. Additionally, it is Human Resource Management's practice to wait until it receives all SOC reports before sending them to the vendor for review. However, in most cases, a significant amount of time had passed since the reports were available for review. Without timely review of SOC reports, Human Resource Management cannot ensure its complementary user entity controls are sufficient to rely on the design, implementation, and operating effectiveness of service providers' internal controls. By not timely reviewing SOC reports, Human Resource Management is increasing the risk that it will not detect and mitigate weakness in a service provider's environment. Of the reports we reviewed, one SOC report contained a qualified opinion, meaning there was a deficiency in the design or operating effectiveness of some of the service provider's controls, requiring additional consideration by a user of the report. In these circumstances, timely identification of concerns by Human Resource Management is essential in determining the need for other compensating complementary user entity controls to address the deficiency.

Human Resource Management should timely remit the SOC 1, Type 2 reports for service providers that significantly affect its financial activity to its vendor for review. Additionally, Human Resource Management should ensure its policies clearly define the parties responsible for obtaining SOC reports and reviewing SOC report assessments. Policies and procedures should also comply with the requirements outlined in the CAPP Manual and should include, but not be limited to, the timeframes for obtaining SOC reports from the service provider, providing reports to the vendor for review, and receiving completed SOC report assessments. Finally, Human Resource Management should ensure it retains evidence of the receipt of the reports and its review of the assessments provided by the vendor.



# Commonwealth of Virginia

*Auditor of Public Accounts*

Staci A. Henshaw, CPA  
Auditor of Public Accounts

P.O. Box 1295  
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December 15, 2025

The Honorable Glenn Youngkin  
Governor of Virginia

Joint Legislative Audit  
and Review Commission

Margaret "Lyn" McDermid  
Secretary of Administration

Janet Lawson  
Director, Department of Human Resource Management

We have audited the financial records and operations of the **Department of Human Resource Management** (Human Resource Management) for the year ended June 30, 2025. We conducted this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, in support of the Commonwealth's Annual Comprehensive Financial Report audit. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Objectives**

Our audit's primary objective was to evaluate the accuracy of Human Resource Management's financial transactions as reported in the Annual Comprehensive Financial Report for the Commonwealth of Virginia for the year ended June 30, 2025, which includes the State Health Plans Program for Pre-Medicare Retirees, the Health Insurance Fund, the Local Choice Health Care Fund, the Line of Duty Act Fund, and the Workers' Compensation Fund. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, Human Resource Management's accounting records, and supplemental information and attachments submitted to the Department of Accounts (Accounts); reviewed the adequacy of Human Resource Management's internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions with respect to audit findings from prior year reports.

## **Audit Scope and Methodology**

Management of Human Resource Management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Contract management
- Revenues
- Actuarial reporting
- Information system security
- Financial reporting
- Claims expenses
- Service organization monitoring

We performed audit tests to determine whether Human Resource Management’s controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Human Resource Management’s operations. We performed analytical procedures, including budgetary and trend analyses, and tested details of transactions to achieve our audit objectives. We also confirmed the estimates for claims incurred but not reported as of fiscal year end with outside parties.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and, when appropriate, we projected our results to the population.

Our consideration of internal control over financial reporting (internal control) was for the limited purpose described in the section “Audit Objectives” and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the section titled “Internal Control Findings and Recommendations,” we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency titled "Strengthen Controls Over Financial Reporting," which is described in the section titled "Internal Control Findings and Recommendations," to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies titled "Improve Controls Over Health Insurance Premium Revenue Reconciliations" and "Improve Third-Party Service Provider Oversight," which are described in the section titled "Internal Control Findings and Recommendations," to be significant deficiencies.

### **Conclusions**

We found that Human Resource Management properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system, Human Resource Management's accounting records, and supplemental information and attachments submitted to Accounts for inclusion in the Commonwealth's Annual Comprehensive Financial Report, after adjustment for the misstatements noted in the finding titled "Strengthen Controls Over Financial Reporting."

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

Since the findings noted above include those that have been identified as material weaknesses and significant deficiencies, they will be reported as such in the "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards," which is included in the Commonwealth of Virginia's Single Audit Report for the year ended June 30, 2025. The Single Audit Report will be available at [www.apa.virginia.gov](http://www.apa.virginia.gov) in February 2026.

### **Exit Conference and Report Distribution**

We discussed this report with management at an exit conference held on February 4, 2026. Government Auditing Standards require the auditor to perform limited procedures on Human Resource Management's response to the findings identified in our audit, which is included in the accompanying section titled "Agency Response." Human Resource Management's response was not subjected to the other auditing procedures applied in the audit and, accordingly, we express no opinion on the response.

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.

Staci A. Henshaw  
AUDITOR OF PUBLIC ACCOUNTS

SDB/vks

## FINDINGS SUMMARY

Finding Title	Status of Corrective Action*	Fiscal Year First Reported
Strengthen Controls Over Financial Reporting	Ongoing	2022
Improve Controls Over Health Insurance Premium Revenue Reconciliations	Ongoing	2024
Improve Third-Party Service Provider Oversight	Ongoing	2024

\* A status of **Ongoing** indicates new and/or existing findings that require management's corrective action as of fiscal year end.



JANET L. LAWSON  
DIRECTOR

**COMMONWEALTH OF VIRGINIA**  
*Department Of Human Resource Management*

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February 11, 2026

Ms. Staci A. Henshaw, CPA  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Ms. Henshaw,

Thank you for the opportunity to respond to the annual audit of the Department of Human Resource Management (DHRM) for the year ended June 30, 2025. We have reviewed the findings identified in the report, and provide our response below.

We appreciate the acknowledgement that our Finance and Administration Division made improvements from the prior year, and concur with the three areas identified as needing improvement.

The one Material Weakness identified in the audit was specific to *Strengthening Controls Over Financial Reporting*. Of the two errors reported, it must be noted that the first error stated in the report was initially identified and addressed in the prior year's report. This is not a new error; instead, it is a previous error for which DHRM was not able to correct nor was made aware of how to correct. However, we recognize this error continues to impact our financial reporting and remain committed to continuing our efforts to have the error from FY24 corrected as soon as possible. The second error reported under this Material Weakness involves the reporting of pharmacy rebates, and while we do not agree with the error as defined, we do agree that no policy regarding rebates exists (or has ever existed) and that a policy is needed. As such, we are in the process of creating a policy that clearly defines how rebates are received and applied.

The two Significant Deficiencies identified in the report are both primarily related to either the lack of policies or insufficient policies. To properly address *Internal Controls Over Health Insurance Premium Revenue Reconciliations*, we agree that it is important for the agency to clearly identify the timing of monthly reconciliations to accurately reflect insurance enrollment figures against revenue recorded as these data points are derived from different sources.

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While a policy addressing health insurance reconciliations exists, it does not include the level of detail indicated as essential in the report. As such, the fiscal staff are in the process of updating their policy on health insurance reconciliations to provide details on the timing of pulling data from applicable sources, and the processes used to identify, communicate and address differences when discovered. As recommended, the updated policy will also include a threshold by which reconciling differences are considered significant and will identify specific actions needed to address/resolve. In addition, the agency will ensure updates to the policy, if needed, will be made when staffing changes in the division occur.

The second, and final, Significant Deficiency, *Improve Third-Party Service Provider Oversight*, stated that DHRM did not perform a review of the SOC reports, and identified the need for agencies to provide timely review of SOC reports to ensure service providers are appropriately maintaining internal controls over financial processes. DHRM disagrees with the first part of this statement, as all applicable agency leaders confirmed review of the SOC reports although it appears as though we did not provide the documentation to support this. However, we agree with the second half of the statement regarding the current process, which does not define or ensure a timely review of the SOC reports. The report recommends that DHRM develop a policy and procedure to ensure compliance with the CAAP Manual regarding SOC reports and clearly defines an appropriate timeframe to review SOC reports once received. DHRM has already begun developing a comprehensive policy in response to this recommendation.

Fiscal staff meet frequently to review policies and procedures, discuss the need for updates, and investigate areas previously identified as a weakness or deficiency. This process will continue as DHRM remains committed to continuous improvement.

Thank you and your staff for all your assistance and guidance during this review. I greatly appreciate the work of your team and the APA's recommendations.

Respectfully submitted,



Janet L. Lawson, IPMA-SCP, SPHR, SHRM-SCP  
Director, Department of Human Resource Management