

**DEPARTMENT OF PERSONNEL AND TRAINING  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 1999**

***AUDITOR OF  
PUBLIC  
ACCOUNTS***



***COMMONWEALTH OF VIRGINIA***

## **AUDIT SUMMARY**

Our audit of the Department of Personnel and Training, including the Commonwealth Health Insurance Fund, for the year ended June 30, 1999, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no material weaknesses in the internal controls tested;
- no material instances of noncompliance with applicable laws and regulations tested;  
and
- adequate implementation of corrective action on prior audit findings.

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December 3, 1999

The Honorable James S. Gilmore, III  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Richard J. Holland  
Chairman, Joint Legislative Audit and  
Review Commission  
General Assembly Building  
Richmond, Virginia

### INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Personnel and Training, including the Commonwealth's Health Insurance Fund**, for the year ended June 30, 1999. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objectives, Scope and Methodology

Our audit's primary objectives were to review the Department and Health Insurance Fund's accuracy of recording financial transactions on the Commonwealth's Accounting and Reporting System, adequacy of internal control, adequacy of reserve balances, and determine compliance with applicable laws and regulations. We also determined the status of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations over the significant cycles, classes of transactions, and account balances:

Accounts Receivable  
Claims Payable

Receipts and Expenses  
Contract Administration

We obtained an understanding of the relevant internal control components 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 the Department'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 and regulations.

Management has 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.

Our audit was more limited than would be necessary to provide an opinion on internal control or on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control to future periods is subject to the risk the procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We noted no matters involving internal control and its operation that we consider to be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial information being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Further, the results of our tests of compliance disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to audit findings reported in the prior year.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on January 24, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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## DEPARTMENT OF PERSONNEL AND TRAINING HIGHLIGHTS

The Department of Personnel and Training (Department) is responsible for the administration of the Commonwealth's personnel act and health insurance plans for state and local employees. The Department's responsibilities include providing expertise in the areas of compensation, equal employment compliance, health benefits, and human resources policy and training. The Department is also the Commonwealth's central source for information about the Commonwealth's employment work force and provides a listing of state employment opportunities. The Department has four offices: Compensation and Policy, Equal Employment Services, State and Local Health Benefits, and Human Resources/Business Engineering.

The Department is currently working with the Commission on Reform of the Classified Compensation Plan to review the state's compensation policies. The objective of compensation reform is to compensate state employees in the manner that is sufficient to recruit, retain, support, and develop a high performance work force. In another initiative, the Department is making the state's personnel and benefit data available to state employees and decision makers via the Internet.

In fiscal year 1999, the Department received general fund appropriations of approximately \$4.6 million and spent \$4.3 million for personnel administration. Approximately 67 percent of the Department's expenses represent payroll costs for about 64 employees. The Health Insurance Fund reimbursed the Department \$2,154,644 for administrative costs of the state and local employee healthcare programs.

## HEALTH INSURANCE FUND HIGHLIGHTS

The Commonwealth of Virginia offers state employees and retirees, as well as Virginia localities' employees, the opportunity to participate in a group healthcare program. The program consists of several self-insured plans and eight commercially-insured health maintenance organization (HMO) plans. The self-insured plans offered include Key Advantage, Cost Alliance, and Medicare supplemental.

The Department manages all health insurance programs and uses contractors to perform most of the program operations. The Department's responsibility is to procure these contractors' services and oversee the contracts. The Department manages the programs through state agencies by developing instructions and training, and serving as a resource to agency benefits officers. Currently, the Department is in the process of finalizing contracts for fiscal year 2001 to extend the Commonwealth's self-insured plans and the commercially-insured HMO plans.

### Administration of the Commonwealth Self-Insured Plan

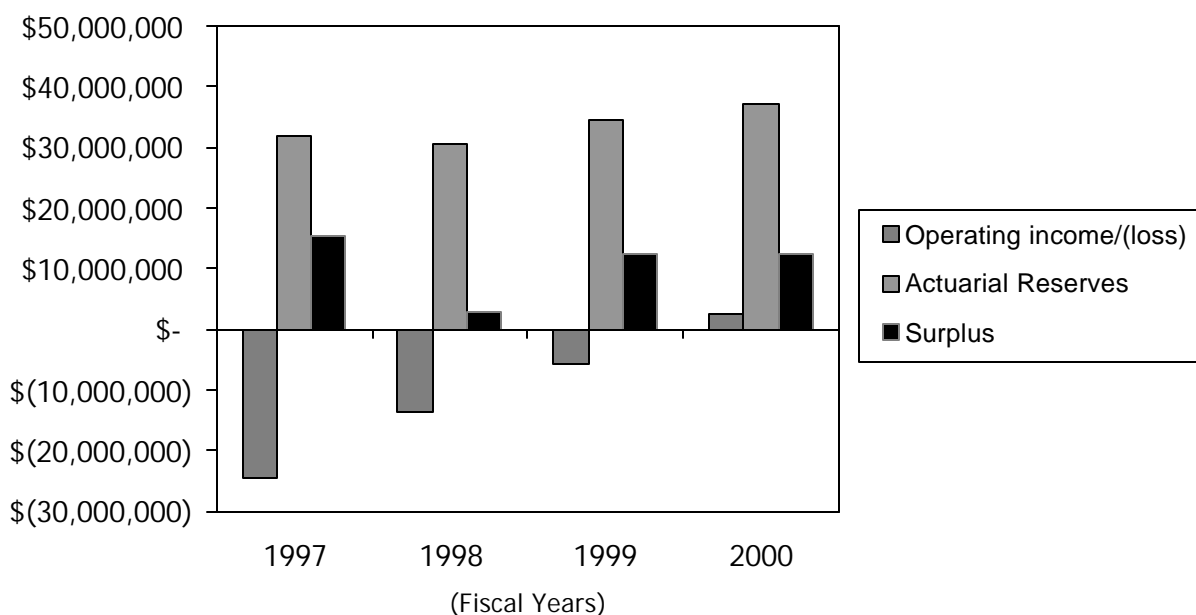
The Department has a contract with Trigon for administration of the Key Advantage and Medicare supplemental programs. Trigon receives provider claims, verifies participant eligibility against the state's Benefit Eligibility System, and serves as liaison for health care providers and hospitals. Trigon bills the Commonwealth weekly for all claims processed.

The contract with Trigon establishes standards of performance for claims accuracy, processing time, and savings due to coordination of benefits with other insurance companies. The contract requires measurement of performance standards through claims audits and imposes monetary penalties for failure to meet the established standards.

The Department contracts with a consultant to monitor claims paid by Trigon. The consultant currently reviews claims for eligibility requirements and produces weekly exception reports. The Department reviews the exception reports and forwards improperly paid claims to Trigon for review and correction.

### Reserves

The Commonwealth assumes all risk for the self-insured health insurance program provided to state employees and retirees. If the Health Insurance Fund (Fund) had a deficit, the Commonwealth would have responsibility for paying the outstanding claims. The chart below shows the Fund's surplus in excess of actuarially recommended reserves for fiscal years 1997, 1998, and 1999 and how operating losses over these years has impacted the surplus. This information reflects the accrual basis of accounting and includes both Medicare and non-Medicare plans. In addition, we projected the Fund's fiscal year 2000 operating results to determine if operating losses would continue and how recent premium increases may impact the surplus.



In fiscal year 1999, the Health Insurance Fund received appropriations of \$19.2 million in reserve funds. Because the \$19.2 million is a reserve component of the Health Insurance Fund, the Fund can not obligate or expend this money without approval from both the Secretaries of Finance and Administration. Premium rates were also increased effective July 1, 1998 and January 1, 1999, for all of the employees' self-insured plans and all retiree plans, respectively. Despite the premium increase, the Fund had an operating loss in fiscal year 1999. With the \$19.2 million reserve component, the Fund's surplus increased to \$12.5 million for 1999. Premium rates have been increased effective July 1, 1999 and January 1, 2000. Our projection shows a resulting net income of \$2.5 million, and a fund surplus above actuarial reserves of \$12.4 million for fiscal year 2000 (including the \$19.2 million reserve component).

DEPARTMENT OF PERSONNEL AND TRAINING  
Richmond, Virginia

Sara Redding Wilson, Director – Department of Personnel and Training

A.C. Graziano, Director – Office of Health Benefits