



# DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2022

Auditor of Public Accounts  
Staci A. Henshaw, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

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## AUDIT SUMMARY

Our audit of the Department of Human Resource Management (Human Resource Management) for the year ended June 30, 2022, found:

- proper recording and reporting of all transactions, in all material respects, related to the Health Insurance Fund, The Local Choice Health Fund, the Line of Duty Act Fund, and the Workers' Compensation Fund, in the Commonwealth's accounting system, in Human Resource Management's accounting records, and in supplemental information and attachments submitted to the Department of Accounts, after adjustment for the misstatements noted in the finding "Strengthen Controls over Financial Reporting";
- three matters involving internal control and its operations necessary to bring to management's attention, two of which are considered significant deficiencies and one that is considered a material weakness; and
- two instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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## AGENCY HIGHLIGHTS

Human Resource Management administers the Commonwealth's Personnel Act, health insurance plans for state and local employees, and health benefits plans for the Virginia Line of Duty Act and the Workers' Compensation program. Human Resource Management's responsibilities include providing expertise in the areas of compensation, equal employment compliance, health benefits, and human resources policy and training. Human Resource Management is also the Commonwealth's central source for information about the Commonwealth's employment workforce and provides a listing of state employment opportunities.

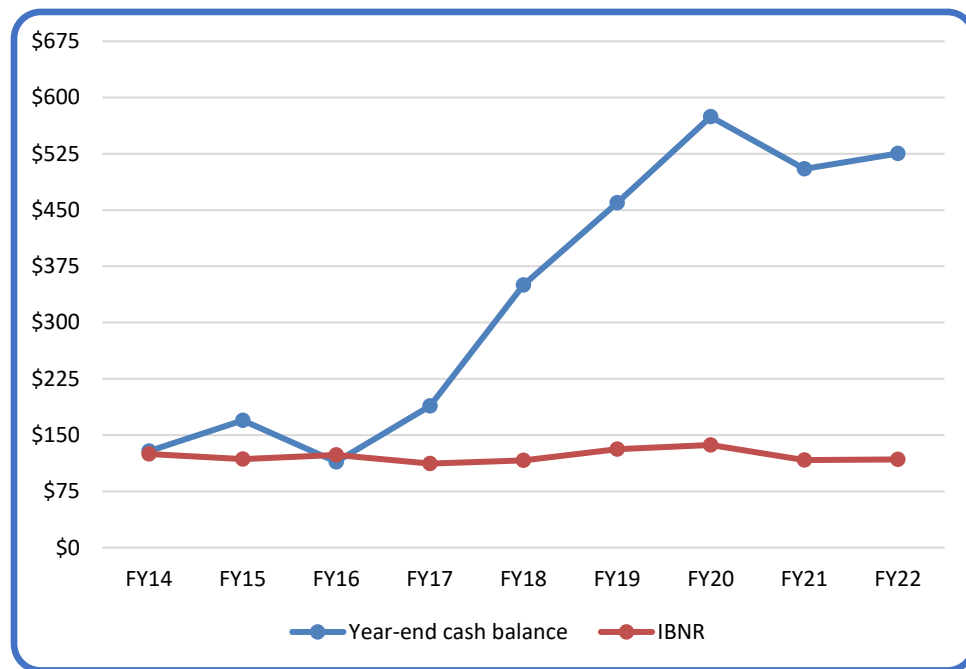
The Office of Finance and Administration within Human Resource Management manages all accounting, finance, and procurement activities for the agency. Finance and Administration also provides accounting services for the Office of Health Benefits Services and the Office of Workers' Compensation within Human Resource Management. Finance and Administration contracts with actuaries to perform annual valuations for the Health Insurance Fund, The Local Choice Health Care Fund, the Line of Duty Act Fund, and the Workers' Compensation Fund. The actuarial valuations include an estimate of the incurred but not reported (IBNR) claims for each fund. IBNR claims represent the amount owed for valid unreported claims as of fiscal year-end, which the Department of Accounts uses in the preparation of the Commonwealth's Annual Comprehensive Financial Report. The following pages include detailed information on the cash balances and associated IBNR claims for the Health Insurance Fund, The Local Choice Health Care Fund, the Line of Duty Act Fund, and the Workers' Compensation Fund as of June 30, 2022.

## Health Insurance Fund

Health Benefits Services administers the comprehensive health benefits and long-term care programs for state employees, state retirees, and their dependents. Human Resource Management contracts with Anthem Blue Cross and Blue Shield to serve as the administrator for the Commonwealth's statewide standard preferred provider organization (PPO) health plan. Additionally, Human Resource Management contracts with Kaiser Foundation Health Plan of the Mid-Atlantic States and Optima Health Vantage to administer the consumer-driven health plans. Aon Consulting, Inc. provides services to evaluate the actuarial liabilities and reserve requirements of the self-funded health benefits program. As shown in Chart 1 below, the fiscal year 2022 year-end cash balance increased from the prior fiscal year, resulting in a cash balance of \$525.5 million on June 30, 2022.

**State Employee Health Insurance Fund**  
(\$ in millions)

Chart 1

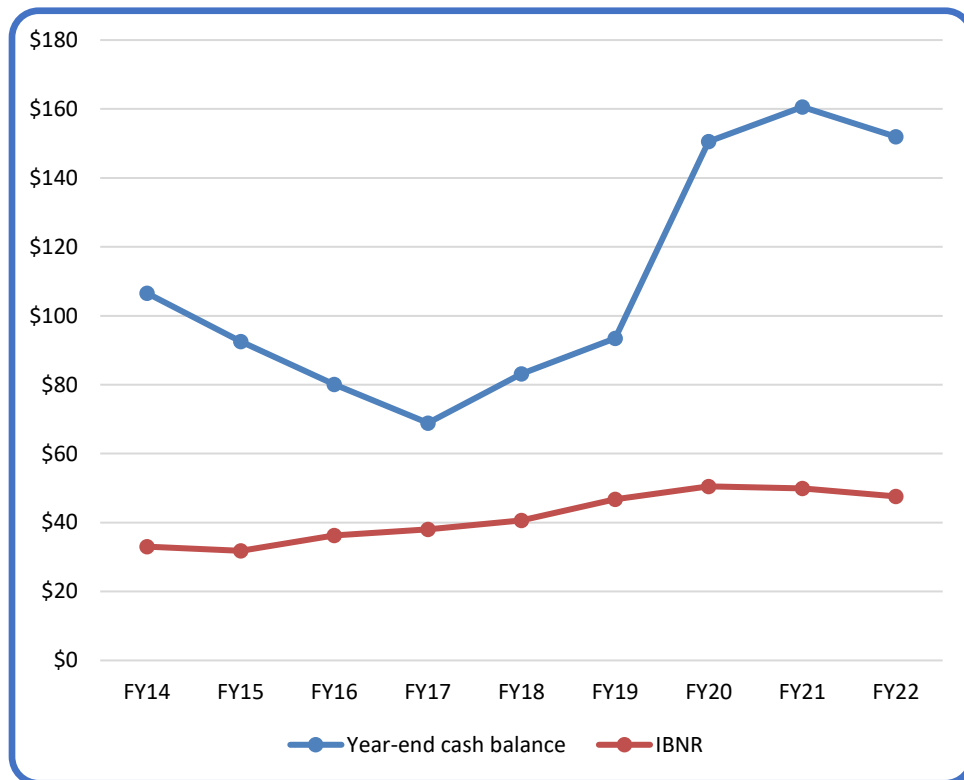


## Local Choice Health Care Fund

Health Benefits Services administers The Local Choice (TLC) health benefits program, which provides health benefits and long-term care programs to local government and school jurisdiction employees, dependents, and retirees. Six health plans are available as options for the participating jurisdictions. Human Resource Management contracts with Anthem Blue Cross and Blue Shield and Kaiser Permanente to serve as the administrators of the TLC health plans. As shown in Chart 2 below, the year-end cash balance has consistently exceeded IBNR claims.

**The Local Choice Health Care Fund**  
(\$ in millions)

Chart 2

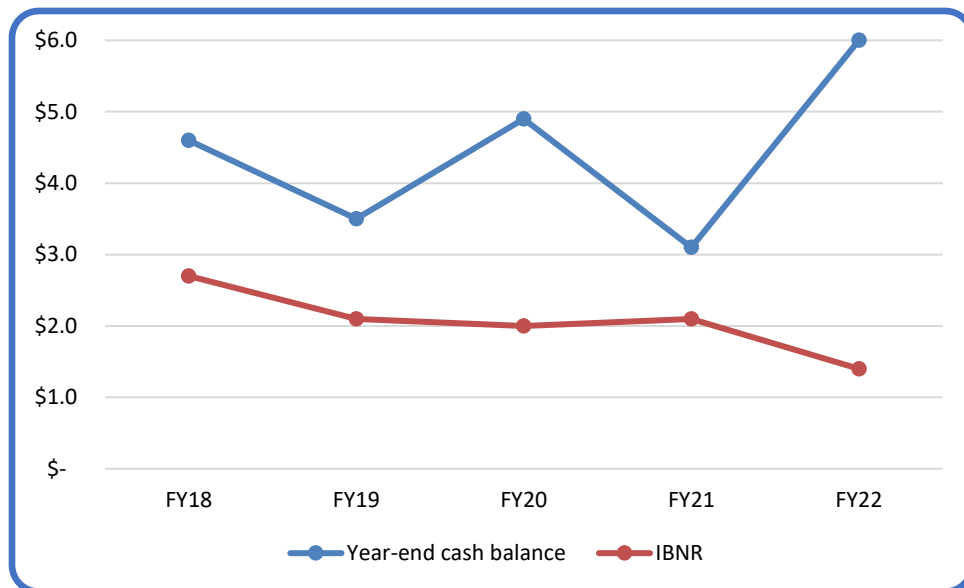


## Virginia Line of Duty Act Fund

The Virginia Line of Duty Act (LODA), established under § 9.1-400 of the Code of Virginia, provides benefits to eligible family members of eligible employees and volunteers killed in the line of duty, and to those eligible employees and volunteers disabled in the line of duty and their eligible family members. The Virginia Retirement System (VRS) administers the LODA Trust Fund and is responsible for making all eligibility determinations and issuing benefit payments on behalf of entities that participate. Beginning in fiscal year 2018, Human Resource Management assumed responsibility for administering the LODA Health Benefits Plan. As of June 30, 2022, the cash balance in the LODA health benefits fund was \$6.0 million with an estimated IBNR of \$1.4 million. Chart 3 below shows a comparison of year-end cash balances and IBNR claims from fiscal year 2018 through fiscal year 2022. The year-end cash balance has consistently exceeded IBNR claims.

**LODA Health Benefits Fund**  
(\$ in millions)

Chart 3

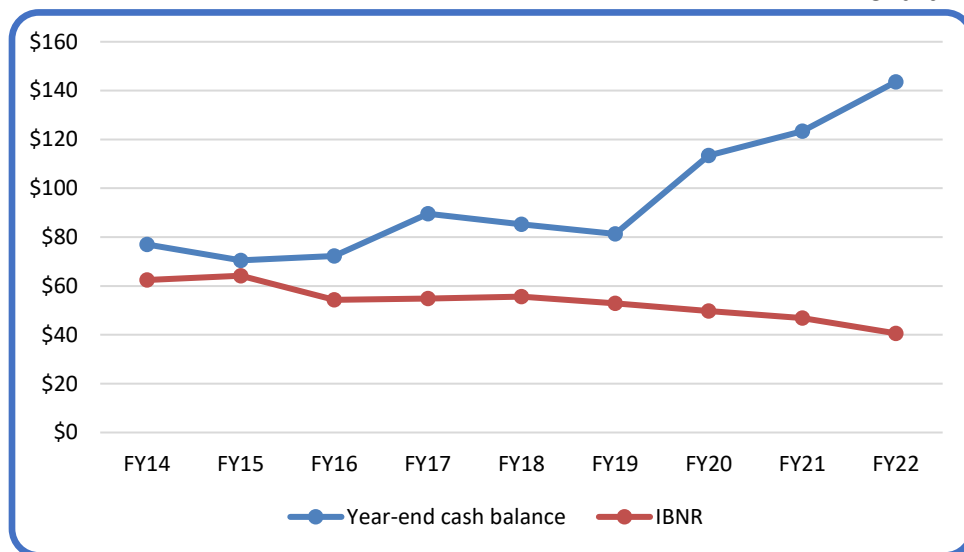


## Workers' Compensation Fund

The Office of Workers' Compensation (WC) provides direction to state agencies on workers' compensation, workplace safety and loss control, and return to work programs. WC also determines if the Commonwealth has adequate workers' compensation insurance protection, claims administration, training, and loss control services. The Workers' Compensation Fund provides all state employees with a covered injury sustained in the course and scope of employment with salary and wage protection, medical expenses, and other costs. Human Resource Management contracts with MC Innovations, LLC to manage cost containment and claims administration. The Office also contracts with Oliver Wyman Actuarial Consulting, Inc., to provide an annual actuarial analysis of the Workers' Compensation Fund. Chart 4 below shows that the fund's cash balance has increased for the last three fiscal years.

**Workers' Compensation Fund**  
(\$ in millions)

Chart 4



## Information Systems

During fiscal year 2022, Human Resource Management's Office of Information Technology managed the Commonwealth's personnel management system; benefits system; and time, attendance, and leave system. Beginning in fiscal year 2021, the Department of Accounts (Accounts) began the process of implementing an integrated component of the Commonwealth's accounting and financial reporting system, which includes functionality to replace the aforementioned Human Resources Management systems. Accounts deployed the implementation in three stages, with two releases during fiscal year 2022 (October 2021 and April 2022) and one release in fiscal year 2023 (October 2022), which completed the system implementation.



## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### **Strengthen Controls over Financial Reporting**

**Type:** Internal Control

**Severity:** Material Weakness

**Repeat:** No

Human Resource Management needs to strengthen controls over financial reporting information it submits to the Department of Accounts (Accounts). The Office of Finance and Administration is responsible for submitting financial information in the form of attachments and supplemental items to Accounts, which Accounts uses in preparation of the Commonwealth's financial statements. For fiscal 2022 year-end financial reporting, Finance and Administration resubmitted multiple attachments to Accounts that contained the following significant errors that it did not identify during the internal review process:

- Finance and Administration double counted insurance claim expenses in their initial Workers' Compensation Fund attachment submitted to Accounts, resulting in an overstatement of \$399.2 million to the change in net position and operating income (loss).
- Finance and Administration incorrectly reversed prior year journal entries due to a lack of reference to the final prior year submission to Accounts, resulting in a net misstatement of \$20.1 million on The Local Choice Fund attachment.
- Finance and Administration incorrectly reversed prior year journal entries due to a lack of reference to the final prior year submission to Accounts, resulting in a net misstatement of \$12.4 million on the Health Insurance Fund attachment submitted to Accounts. In addition, Finance and Administration did not properly prorate fiscal year-end claims, resulting in a net misstatement of \$16.2 million.

Human Resource Management's financial activity is material to the Commonwealth's financial statements; therefore, it is essential for the agency to have strong financial reporting practices. The office experienced a significant amount of turnover over the last year in key financial reporting positions which remained vacant during a significant portion of the fiscal year. The vacancies required existing team members to assume additional responsibilities to fulfill its obligations, all of which contributed to the year-end financial reporting errors.

Management of Human Resource Management should work with Finance and Administration to promptly fill vacant positions to ensure a more stable and adequate staffing level. Management has communicated that filling vacant positions is a priority for the office, and they are currently taking steps to fill vacant positions. In addition, Finance and Administration should identify opportunities for cross-training to ensure that there are adequate measures in place to mitigate the effects of significant turnover in the future.

### **Improve Database Governance and Security**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

Human Resource Management does not have certain security controls in place for a sensitive system's database that the Commonwealth's Information Security Standard, SEC 501 (Security Standard) requires.

We communicated the control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under § 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. The Security Standard requires the implementation of certain controls that reduce unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information. By not meeting the minimum requirements in the Security Standard and aligning the database's settings and configurations with best practices, Human Resource Management cannot ensure the confidentiality, integrity, and availability of data within the database or the information it reports.

Human Resource Management should implement the security controls discussed in the communication marked FOIAE in accordance with the Security Standard.

### **Implement Policies and Procedures Related to Conflict of Interests Requirements**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

Human Resource Management did not properly identify all employees holding a position of trust and did not ensure that employees hired into positions of trust completed the required Statement of Economic Interest (SOEI) form as a condition of assuming employment or a new position at the agency. Specifically, three employees holding positions of trust during the fiscal year under audit did not file a SOEI form or complete the required training in a timely manner.

Pursuant to the Code of Virginia § 2.2-3114A and § 2.2-3118.2, persons occupying positions of trust within state government shall file with the Ethics Council, as a condition to assuming office or employment, a disclosure statement of their personal interests and such other information as is required on the form, on or before the day such office or position of employment is assumed, and thereafter shall file such a statement annually on or before February 1. Additionally, the Conflict of Interests Act requires filers complete orientation training to help them recognize potential conflicts of interest. This orientation must be completed within two months of hire and at least once during each consecutive period of two calendar years.

Human Resource Management could be susceptible to actual or perceived conflicts of interest that would impair or appear to impair the objectivity of certain programmatic or fiscal decisions made by employees in designated positions of trust. By failing to ensure that all required employees have

completed the necessary disclosures and training, Human Resource Management may not be able to rely on its employees to effectively recognize, disclose, and resolve conflicts of interest. While not a cost to the agency, employees in a position of trust who do not complete the required SOEI form may, as allowed by the Code of Virginia § 2.2-3124, be assessed a civil penalty in an amount equal to \$250.

For the three individuals who needed to submit SOEI forms, two of these individuals assumed new jobs within the agency during the fiscal year, while one individual was already in a position of trust. We identified these employees as potentially holding positions of trust based on their job titles and descriptions and Human Resource Management confirmed that these individuals needed to submit SOEI forms and complete the required training to comply with the requirements above. Human Resource Management did not properly identify these individuals as holding positions of trust as it does not have policies and procedures that explicitly identifies required filers at the agency.

Human Resource Management should implement and maintain written policies and procedures to meet the Code of Virginia requirements for completing the SOEI form and applicable training. These policies should specifically outline positions of trust at the agency and develop processes to ensure that individuals submit SOEI forms as a condition of assuming their employment or a new position and annually as required by the Code of Virginia and complete required training at least once every two years.



Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 15, 2022

The Honorable Glenn Youngkin  
Governor of Virginia

Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Department of Human Resource Management** (Human Resource Management) for the year ended June 30, 2022. 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, 2022, which includes 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, in Human Resource Management's accounting records, and supplemental information and attachments submitted to the Department of Accounts; reviewed the adequacy of Human Resource Management's internal control; and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

## **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	Financial reporting
Revenues	Claims expenses
Actuarial reporting	Service organization monitoring
Information systems security	

We performed audit tests to determine whether the 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 objectives. We also confirmed actuarial IBNR estimates 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 and Compliance 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 and Compliance 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 Database Governance and Security” and “Implement Policies and Procedures Related to Conflict of Interests Requirements,” which are described

in the section titled “Internal Control and Compliance 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, in Human Resource Management’s accounting records, and in supplemental information and attachments submitted to the Department of Accounts for inclusion in the Commonwealth’s Annual Comprehensive Financial Report, after adjustment for the misstatements noted in the finding “Strengthen Controls over Financial Reporting.” The financial information presented in this report came directly from the Commonwealth’s accounting and financial reporting system.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that require management’s attention and corrective action. These matters are described in the section titled “Internal Control and Compliance Findings and Recommendations.”

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

We discussed this report with management at an exit conference held on January 18, 2023. 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 it.

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

JDF/clj



JANET L. LAWSON  
DIRECTOR

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

James Monroe Building  
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Richmond, Virginia 23219  
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(TTY) 711

January 25, 2023

Ms. Staci A. Henshaw, CPA  
The Auditor of Public Accounts  
P. O. Box 1295  
Richmond, Virginia 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, 2022. We have reviewed the findings identified in the report and DHRM's responses are below.

We acknowledge the weaknesses found in the financial activity reported on the financial statement attachments prepared for the Workers Compensation, The Local Choice, and Health Insurance Fund. We are committed to and have already identified corrective actions that have been or will be taken to address the areas of concern noted through hiring practices, awareness and cross-training, and procedure updates.

We acknowledge the findings regarding developing adequate procedures to support DHRM's IT database governance and security. Our technical staff have made plans to address the identified weaknesses and, as noted in the APA's audit report, some of them have already been addressed. We are committed to remediate the remaining weaknesses in a timely manner and recognize the need to document the respective procedures. Our IT leadership will make it a priority to have all the procedures identified in the APA's audit report documented before the end of Fiscal Year 2023.

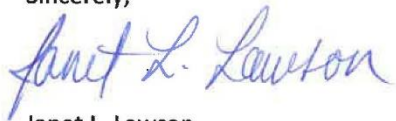
We acknowledge the deficiencies found in our compliance with Conflict of Interest requirements. We have completed the plan to fulfill the requirements to develop a written Statement of Economic Interest (SOEI) Administrative Procedures to document the agency's process for determining which agency positions require incumbents to submit a SOEI; provide information to SOEI filers on related training requirements; and provide agency Human Resources staff with guidance on the inclusion of the SOEI requirements in job announcements. I approved the SOEI Administrative Procedures on January 20, 2023. The inclusion of the agency's SOEI procedures have also been added to the agency's onboarding/transfer Standard Operating Procedures (SOP). We appreciate the audit process which gives us the opportunity to improve our internal processes.

*An Equal Opportunity Employer*



DHRM remains committed to continuous improvement and thanks your staff and you for all of your assistance and guidance during our review. I appreciate the work of your team and APA's recommendations.

Sincerely,



Janet L. Lawson  
Director



## DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

As of June 30, 2022

Janet Lawson  
Director

Rue Collins White  
Chief Deputy Director

Patrice Elliott  
Chief Financial Officer

Donna Brown  
Fiscal Officer

Gary Johnston  
Director, Health Benefits Services

Aubrey Chigwada  
Director, Workers' Compensation

Antonio Villafaña  
Chief Information Officer

Belchior Mira  
Information Security Officer