



DEPARTMENT OF
HUMAN RESOURCE MANAGEMENT

INTERNAL CONTROL QUESTIONNAIRE
REVIEW RESULTS

AS OF
JUNE 2018

Auditor of Public Accounts
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- TABLE OF CONTENTS -

Page

REVIEW LETTER	1-3
AGENCY RESPONSE	4



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September 24, 2018

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INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on June 28, 2018, for the **Department of Human Resource Management** (Human Resource Management). 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 Human Resource Management is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. All agencies will undergo an Internal Control Questionnaire review at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

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; 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 Human Resource Management. 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

Due to the implementation of the new statewide accounting system, we reviewed system access and 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; therefore, we also 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. For Human Resource Management, all ARMICS documentation was reviewed.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, 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:

- Human Resource Management has formal, documented policies and procedures over its significant business processes. However, management has not updated their policies and procedures to account for significant changes in their control environment, including the implementation of new statewide systems. Management should update existing policies and procedures to ensure they align with current processes and reflect any significant changes in the control environment. In addition, the most recent dates of approval on the policies and procedures reviewed were significantly out of date. Management should ensure policies and procedures are reviewed annually or as needed, and that evidence of this review is retained.
- Human Resource Management does not meet the minimum requirements documented in the Department of Accounts (Accounts) ARMICS standards for agency and transaction-level

risk assessments. We noted the current ARMICS documentation for Human Resource Management lacked the following required items:

- Adequate identification and documentation of risks and internal controls.
- Adequate assessments of entity and transaction-level controls. Currently, the only test of controls is an out-of-date survey. Per the ARMICS Review Checklist, surveys are not a test of control. They may be used as part of the assessment; however, should not be the assessment and are not required by ARMICS.

Given that management certifies to Accounts that Human Resource Management completes the ARMICS process, management should ensure it is meeting the minimum requirements of the ARMICS standards.

We discussed these matters with management on September 11, 2018. 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,

Auditor of Public Accounts

JDE/vks




Emily S. Elliott
Director

COMMONWEALTH OF VIRGINIA
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October 18, 2018

TO: Martha S. Mavredes, CPA
Auditor of Public Accounts

FROM:  Richard Whitfield, Director of Contracts and Finance, Department of Human Resource Management
Jian Martin, Fiscal Officer, Department of Human Resource Management

RE: Response to Results of the Internal Control Questionnaire Review as of June 28, 2018

Thank you for the opportunity to respond to your most recent review of the Internal Controls for the Department of Human Resource Management (DHRM). We also appreciate the feedback given to DHRM

DHRM will review procedures and will update those procedures in order to be consistent with current business practices. DHRM will use the guidelines provided by APA to assist in updating the policies and procedures.

DHRM acknowledges that transaction-level risk assessments should be performed on a more frequent basis. DHRM will also implement test controls to document and assess entity and transaction level controls.

Thank you and the APA staff for the work and professionalism shown during this review. If you have any questions please feel free to contact Ricky Whitfield at (804) 371-7990 and Jian Martin at (804) 225-2361

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