



DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2023

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, 2023, 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 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 operation necessary to bring to management's attention, one of which is considered a material weakness;
- one instance of noncompliance with applicable laws and regulations or other matters that is required to be reported; and
- adequate corrective action with respect to prior audit findings identified as complete in the [Findings Summary](#) included in the Appendix.

In the section titled "Internal Control and Compliance Findings and Recommendations" we have included our assessment of the conditions and causes resulting in the internal control and compliance 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 developing and appropriately implementing adequate corrective actions to resolve the findings as required by the Department of Accounts in Section 10205 – Agency Response to APA Audit of the Commonwealth Accounting Policies and Procedures Manual. Those corrective actions may include additional items beyond our recommendations.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Strengthen Controls over Financial Reporting

Type: Internal Control

Severity: Material Weakness

First Issued: Fiscal Year 2022

Human Resource Management needs to continue to strengthen controls over financial reporting information submitted to the Department of Accounts (Accounts). The Finance and Administration division (Finance and Administration) is responsible for submitting information to Accounts, including multiple attachments used in preparation of the Commonwealth's financial statements. Multiple submissions to Accounts contained significant errors that Human Resource Management did not identify during its internal review process. As a result, Human Resource management had to correct and resubmit multiple attachments as follows:

- Human Resource Management reports financial activity related to the Local Choice Health Care Fund on Attachment 10. Finance and Administration incorrectly reversed prior year journal entries, due to not referencing the prior year's final submission to Accounts, resulting in a misstatement of \$346.3 million. In addition, Finance and Administration did not properly prorate fiscal year-end claims, resulting in a misstatement of \$9.4 million. Furthermore, on Human Resource Management's Supplemental Item 23 submission, Finance and Administration initially excluded two paid claim amounts, resulting in an understatement totaling \$60.3 million.
- Human Resource Management reports financial activity related to the Health Insurance Fund on Attachments 11 and 19. Finance and Administration incorrectly recorded and reported amounts provided by the agency's actuary, resulting in \$70.9 million misstatement in the attachments and within its Supplemental Item 20 submission. In addition, Finance and Administration incorrectly recorded adjustments for prescription rebates, which resulted in a misstatement of \$22.2 million.
- Human Resource Management reports financial activity related to the Workers' Compensation Fund on Attachments 11 and 19. Finance and Administration did not include transfers on their initial submissions, resulting in a misstatement of \$22.6 million. Additionally, on Human Resource Management's Supplemental Item 20, Finance and Administration incorrectly reported claim payable amounts, resulting in an adjustment of \$357.2 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. There are several factors which contributed to these issues for Finance and Administration. Over the last year, the division has experienced significant turnover in key financial reporting positions, coupled with hiring delays. For the current fiscal year-end reporting period, only one division member had experience with

Human Resource Management fiscal year-end financial reporting, while the agency hired all other division members within six months leading up to fiscal year-end.

Finance and Administration should evaluate its written policies and procedures, specifically its financial reporting desktop procedures, to ensure they provide adequate detail needed for reporting financial information accurately and completely. Further, while it is our understanding that management is actively recruiting for an additional Financial Analyst, management should continue to fill all positions in Finance and Administration to ensure that the staffing level is adequate for the division. Additionally, Finance and Administration should identify opportunities for cross-training to ensure that there are adequate measures in place to mitigate the effects of turnover in the future.

Improve IT Risk Management and Contingency Planning Program

Type: Internal Control and Compliance

Severity: Significant Deficiency

Human Resource Management does not perform some aspects of its Information Technology (IT) Risk Management and Contingency Planning documentation in accordance with the Commonwealth's Information Security Standard, SEC501 (Security Standard). IT Risk Management and Contingency Planning documentation analyzes Human Resource Management's data to identify the sensitivity and risks of the data, as well as plans to support its business functions and recover IT systems should they become unavailable. Specifically, Human Resource Management does not perform the following:

- Human Resource Management does not have a disaster recovery plan or perform an annual test of disaster recovery and restoration processes detailing how the agency will manage a disruptive event to restore mission critical systems within recovery point and recovery time objectives. The Security Standard requires the development and testing of a disaster recovery plan that supports the restoration of mission essential functions and dependent business functions (Security Standard, CP-1-COV-2 Contingency Planning Policies and Procedures). Without a completed and approved disaster recovery plan that receives annual tests, the agency may not be able to restore mission essential business functions in a timely manner, leading to a disruption of services due to mission critical and sensitive systems being unavailable. The Virginia Information Technologies Agency (VITA) provides disaster recovery services to the Commonwealth via a tiered subscription service. However, VITA covers agency servers not subscribed to a tier under the "best effort" effort condition, which restores daily backup data from the server only after VITA fully recovers subscribers' servers. Human Resource Management relies on VITA's daily backup services in lieu of documenting and approving a Disaster Recovery Plan.
- Human Resource Management does not have a documented system security plan for two of its four sensitive systems, nor does the agency have a finalized and approved system security plan for the other two sensitive systems. The Security Standard requires the agency to develop a system security plan for each sensitive system, and to review the system security plans on an annual basis (Security Standard, PL-2 System Security Plan). Without having a system security plan for each sensitive system, Human Resource Management increases the

risk of not identifying and implementing proper security controls to secure the system. Additionally, without reviewing system security plans annually, Human Resource Management increases the risk they will not detect changes to key security controls and not have proper security mechanisms to adequately protect its sensitive systems. Due to their re-structuring of the IT environment following the October 2022 migration to the Commonwealth's enterprise resource planning system, Human Resource Management has not yet completed and approved the system security plans for their newly classified systems.

Human Resource Management should create and implement a disaster recovery plan that defines the recovery process and specific restoration requirements. Once Human Resource Management develops the disaster recovery plan, they should conduct annual tests to confirm the effectiveness and validity of the plan to help ensure the availability of mission critical and sensitive systems in the event of a disaster. Human Resource Management should also consider subscribing to a disaster recovery service, such as the services provided by VITA, to ensure protection of the agency's mission essential data in the event of a disaster. Human Resource Management should also develop and approve a system security plan for each sensitive system in accordance with the Security Standard and perform annual reviews of its system security plans to ensure they can identify and mitigate potential security control risks timely. Doing this will help to ensure the confidentiality, integrity, and availability of sensitive and mission essential systems.

Improve Controls over GASB Statement No. 75 Financial Information Review

Type: Internal Control

Severity: Significant Deficiency

Human Resource Management has not effectively implemented sufficient written procedures for reviewing Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Report for Postemployment Benefits Other Than Pensions (OPEB), data and schedules that the agency and its actuary prepare. As the administrator of the statewide Pre-Medicare Retiree Healthcare OPEB plan, Human Resource Management is responsible for preparing GASB compliant financial reporting information and disseminating the information, including required disclosures, to all participating entities for inclusion in the participant's individual financial statements. During our audit, we noted that Human Resource Management erroneously excluded a portion of June 2022 employer contribution data (totaling \$14.6 million) from the population (totaling \$1.2 billion), resulting in adjustments to each of the financial schedules the actuary prepared. Additionally, Human Resource Management missed meeting the agreed-upon deadlines to provide its actuary with census data and agency allocation percentages by one month.

Human Resource Management's written policies and procedures currently lack sufficient detail surrounding the review of agency allocation calculations and the actuary report (which includes the financial schedules), which contributed to these errors. Human Resource Management relies heavily on the actuary to compile the financial information. Therefore, it is necessary for Human Resource Management to perform a detailed review of the actuary report and related financial information to ensure they identify errors and omissions in a timely manner and to ensure that Human Resource Management agrees with the actuary's assumptions.

Human Resource Management should review and revise its written policies and procedures over GASB Statement No. 75 financial reporting information. The procedures should include a detailed review of agency allocation calculations and the actuary report, schedules, and required disclosures, focusing on the accuracy and completeness of the information. Additionally, Human Resource Management should establish internal deadlines to provide adequate time to review the financial information and disclosures prior to providing them to the auditors.

AUDIT SCOPE OVERVIEW

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 agency submits financial information to the Department of Accounts for inclusion in the Commonwealth's Annual Comprehensive Financial Report (ACFR). Significant funds applicable to Human Resource Management include the Health Insurance Fund, the Local Choice Health Care Fund, the Line of Duty Act Fund, and the Workers' Compensation Fund. Human Resource Management's Office of Finance and Administration contracts with actuaries to perform annual valuations for estimates of claims incurred but not reported (IBNR) for each fund. IBNR claims represent the amount owed for valid unreported claims as of fiscal year-end, which significantly impact Human Resource Management's financial activity for the fiscal year under audit. Additionally, Human Resource Management is responsible for providing other state agencies with schedules and footnote disclosure templates for the State Health Plans Program for Pre-Medicare Retirees related to GASB No. 75.

Audit procedures are performed to ensure that applicable amounts and disclosures within the ACFR are accurate and complete based on data recorded in the Commonwealth's accounting system and other supporting documentation. The audit also aims to verify that the design and implementation of related internal controls is adequate and reasonable. This includes a review of information system access and security over significant systems.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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December 15, 2023

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Janet Lawson
Department of Human Resource Management Director

We have audited the financial records and operations of the Department of Human Resource Management (Human Resource Management) for the year ended June 30, 2023. 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, 2023, 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, 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; 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	Financial reporting
Revenues	Claims expenses
Actuarial reporting	Service organization monitoring
Information systems security	

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 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 a material weakness 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 IT Risk Management and Contingency Planning Program” and “Improve Controls over GASB Statement No. 75 Financial Information Review,” 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.”

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.”

Human Resource Management has taken adequate corrective action with respect to prior audit findings identified as complete in the Findings Summary included in the Appendix.

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, 2023. The Single Audit Report will be available at www.apa.virginia.gov in February 2024.

Exit Conference and Report Distribution

We discussed this report with management at an exit conference held on January 18, 2024. 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

FINDINGS SUMMARY

Finding Title	Status of Corrective Action	First Issued
Improve Database Governance and Security	Complete	2022
Implement Policies and Procedures Related to Conflict of Interests Requirements	Complete	2022
Strengthen Controls over Financial Reporting	Ongoing	2022
Improve IT Risk Management and Contingency Planning Program	Ongoing	2023
Improve Controls over GASB Statement No. 75 Financial Information Review	Ongoing	2023



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January 31, 2024

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, 2023. 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 also acknowledge the weaknesses found on insufficient written procedures for reviewing the GASB 75 data and schedules that are produced by the agency and its actuary. We are committed to and have already identified corrective actions.

Our Financial 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. In FY 22 and FY 23 there were many vacancies. The audit for FY 2024 DHRM financial staff, except for one, each member will have been with DHRM for more than one year and have assisted on at least one financial audit. The staffing changes that have occurred is the hiring of a new Chief Financial Officer who was hired June at the end of FY 23. An Accounting Specialist position was reclassified to a financial analyst position and this position has been recently staffed. This additional staffing will allow for more review of written procedures and processes. More importantly additional time to prepare schedules and attachments with more accuracy. The financial analyst will be cross-trained, and the tasks divided between the two analysts to allow ample time to process the supplement and attachments in a timelier manner. This will also provide enough time for the CFO and Fiscal Manager to review the submissions for accuracy. Apart from the Year-End Closure procedures, FY 23 DHRM also had an ARMICS audit, GASB 75 report and an APA audit of the financials. The ARMICS audit and year-end closeout occurred simultaneously in FY 23. This ARMICS audit has been moved to January with the completion of the audit prior to FY 2024-year end closeout begins. In FY 23 the GASB 75 was submitted late and the draft report from AON (our actuary) did not submit their draft report to DHRM until June it was due in March. This did not allow for sufficient time to review and prepare the final GASB 75 report. The FY 24 Employer contribution was due in November and was submitted on time. We will make request of AON for the draft by March 1st, allowing ample time for review and any corrections as needed. We have committed to have sufficient time to review and submit on or before the due date. The fiscal staff has convened to examine the policies and

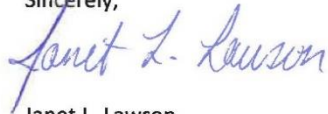
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procedures and to discuss any changes prior to the year-end audit begins. Every item that was found to be a weakness has been examined by the fiscal staff. They have determined what needs to be changed to prevent these errors from happening in FY 2024. The adjustments in my opinion, will improve the controls over financial reporting and the issuance of the GASB 75 reporting.

We acknowledge the deficiencies found in the examination of the IT Risk Management and Contingency Planning program. The agency is in the process of writing a Disaster Recovery Plan(DRP) based on our COOP recovery times. This plan will identify each IT system and classify it if it is an agency wide business function or a dependent business function. VITA offers a disaster recovery service which is available in tiers. These tiers offer different recovery times for each system. These tiers determine what IT systems will be recovered and how fast they will be recovered in a disaster. We expect to purchase this services from VITA and put into place this fiscal year.

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

Sincerely,



Janet L. Lawson
Director