

**VIRGINIA WORKERS' COMPENSATION COMMISSION  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE PERIOD JANUARY 1, 2000  
THROUGH JUNE 30, 2001**



## **AUDIT SUMMARY**

Our audit of the Virginia Workers' Compensation Commission for period January 1, 2000 through June 30, 2001, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a certain matter we consider a reportable condition; however, we do not consider this matter to be a material weakness in internal control;
- no instances of noncompliance that are required to be reported; and
- the Commission has taken adequate corrective action with respect to audit findings reported in the prior year.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AGENCY BACKGROUND AND FINANCIAL INFORMATION	1
INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS	2
INDEPENDENT AUDITOR’S REPORT	3-5
AGENCY OFFICIALS	6

## AGENCY BACKGROUND AND FINANCIAL INFORMATION

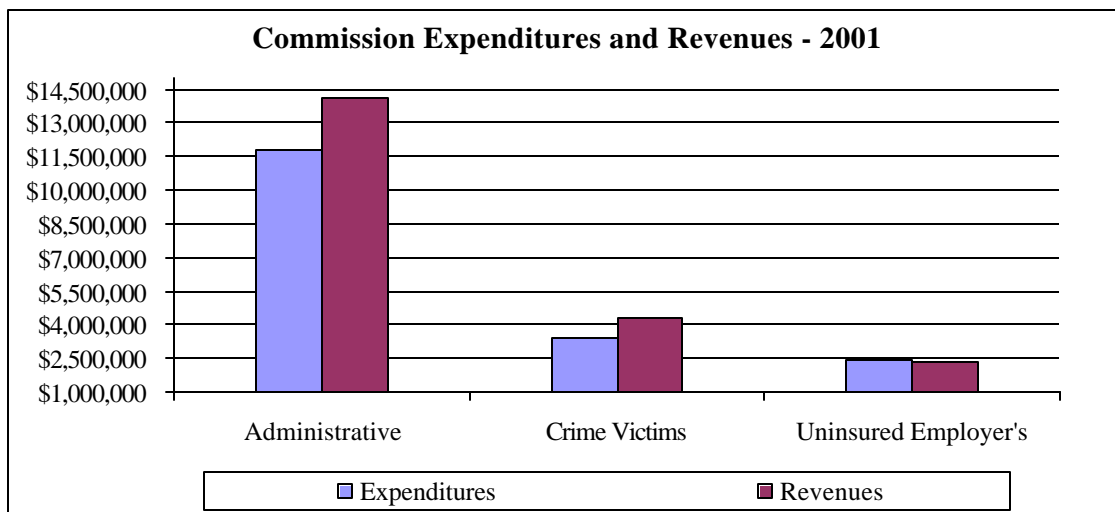
The Virginia Workers' Compensation Commission administers the Virginia Workers' Compensation Act as well as the Criminal Injuries Compensation Fund. The Commission uses the following funds to perform their responsibilities.

The **Administrative Fund** pays the salaries and administrative expenses of the Commission. Funding comes from a 1.54 percent workers' compensation tax assessed on self-insured employers and insurance companies for insured employers. The self-insured employers pay the tax based on a premium figure derived from their payrolls while the insurance companies pay a tax on all workers' compensation insurance premiums they receive from insured employers. The Commission sets this tax rate annually.

The **Uninsured Employer's Fund** provides benefits to injured workers of employers who failed to secure adequate workers' compensation liability coverage. Funding comes from a .25 percent (or less) workers' compensation tax assessed on self-insured employers and insurance companies for insured employers. This maximum rate of .25 percent is statutory and the Commission sets the actual tax rate annually. The fund has an average of 140 claims against it each year.

The **Criminal Injuries Compensation Fund** provides compensation to the victims of crimes, or to qualified survivors of the victim. Fines assessed and collected by the state Courts support this fund. The maximum award per claimant is \$15,000. The Commission also receives federal grants for the Criminal Injuries Compensation Fund.

The Commission hears cases from individuals seeking benefits from the **Virginia Birth Related Neurological Injury Fund** and makes the final eligibility determination. A separate board operates and manages the Virginia Birth Related Neurological Injury Fund to provide benefits to babies born in the Commonwealth with birth-related neurological injuries. Fund support comes solely through annual fees collected from doctors and hospitals that operate in the Commonwealth. Board members of the fund, appointed by the Governor, usually make the determination of the award amount and the fund manager issues the check. The Code of Virginia requires the State Corporation Commission to have periodic actuarial reports completed that assess the viability of the fund.



**Note:** -Revenue for the Crime Victims Fund includes federal trust awards of \$1.3 million. Seventy-six percent of Administrative Fund expenditures are payroll related while awards constitute 85 percent and 100 percent, respectively, of Crime Victims Fund and Uninsured Employer's Fund expenditures.

## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### Improve Computer System Operations

We noted the following during our review of the Commission's computer operations:

- Thirty-three percent of employees tested had network access without proper approval from their supervisors. Further, thirty-eight percent of terminated employees' network access was not deleted timely.
- The Commission's current security policy is incomplete and inadequate. Areas not addressed by the policy include password guidelines and physical security over the network room.
- The Information Technology Resource Management Standard requires secured and restricted access to the network room. During our review, we easily gained access to the network room on several instances without physical security or human intervention preventing access.

We recommend that the Commission review internal controls over its computer operations, ensuring that employees' network access has supervisory approval and there is timely deletion of access for all terminated employees. Further, we also recommend that the Commission approve and implement the security policy that it developed in Fall 2001.

February 11, 2002

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.  
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 **Virginia Workers' Compensation Commission** for the audit period January 1, 2000 through June 30, 2001. 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 evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review adequacy of the Commission's internal control, and test compliance with applicable laws and regulations. We also reviewed the Commission's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Commission's operations. We also tested transactions and performed other such 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. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Accounts Receivable  
Expenditures  
Fixed Assets  
Revenue and Cash Receipts

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 Commission'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.

The Commission's 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 assurance on internal control or to provide an opinion 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 internal control to future periods is subject to the risk that the controls 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 that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Commission 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 a certain matter involving the internal control and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls, that, in our judgment, could adversely affect the Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. A reportable condition, entitled "Improve Computer System Operations," is described in the section titled "Internal Control Findings and Recommendations." We do not believe that the reportable condition is a material weakness.

We believe the Commission took adequate corrective action with respect to audit findings reported in the prior year.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

### EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 27, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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VIRGINIA WORKERS' COMPENSATION COMMISSION  
Richmond, Virginia

COMMISSIONERS

William L. Dudley, Jr., Chairman

Virginia R. Diamond

Lawrence D. Tarr