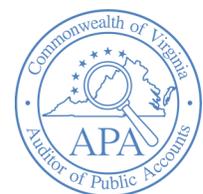




# DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2014

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
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## AUDIT SUMMARY

Our audit of the Department of Human Resource Management for the fiscal year ended June 30, 2014, found:

- proper recording and reporting of all transactions, in all material respects, related to the Health Insurance Fund, the Local Choice Health Care Fund, and the Worker's Compensation Fund;
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

### **Comment to Management**

In fall 2012, the Retirement System launched *myVRS Navigator*, a web-based benefits management system that allows agencies to immediately access and update member and agency related retirement data. The implementation of *myVRS Navigator* significantly changed the retirement contribution reporting process. Many of the responsibilities for managing member data shifted from the Retirement System to each employer. For state agencies, these changes have highlighted the interdependency of key Commonwealth information systems and the risks created when they are out of sync, while giving the agencies more tools to ensure their accuracy. Our report includes a comment to management discussing the importance of all Commonwealth agencies working to ensure the accurate management of member data.

Member data supports retirement contribution calculations and payments throughout the year and provides the foundation for the actuarially based calculations currently reported in the footnotes of the Retirement System, the Commonwealth, and other non-state participating employers' Comprehensive Annual Financial Reports. Beginning in fiscal year 2015, due to the implementation of Governmental Accounting Standards Board's (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, the pension liability will be reported within all employers' basic financial statements, including the Commonwealth's, as well as in the financial statements of any individual state agencies who issue them.

The comment to management focuses specifically on state agencies who use the Commonwealth's Personnel Management Information System (PMIS) and the Commonwealth Integrated Payroll and Personnel System (CIPPS). However, given the ramifications of GASB Statement No. 68, all employers participating in the plans administered by the Retirement System should remain cognizant of their responsibility for ensuring the accuracy of member data and retirement contributions submitted to the Retirement System.

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## COMMENT TO MANAGEMENT

### Shared Responsibilities for Management of Member Data

The Virginia Retirement System (the Retirement System) manages multiple pension plans and other post-employment benefits on behalf of its more than 800 participating employers. Member data supplied by the participating employers drives the calculation of retirement contributions as well as financial reporting for the Retirement System and the employers. Various information systems supporting human resource and payroll activity at the employer level and operations at the Retirement System store member data.

In fall 2012, the Retirement System launched *myVRS Navigator*, a web-based benefits management system that allows employers to immediately access and update member and agency related retirement data. The implementation of *myVRS Navigator* significantly changed the member data collection and retirement contribution reporting processes. With its implementation, many of the responsibilities for managing member data shifted from the Retirement System to each employer.

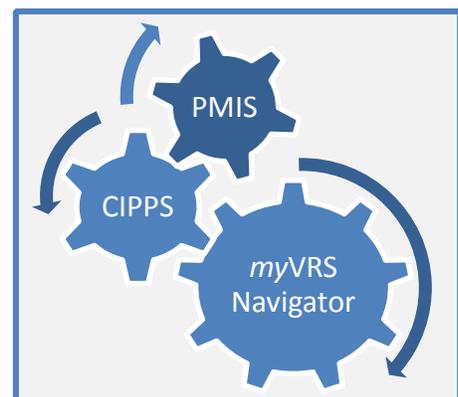
For state agencies, these changes have highlighted the interdependency of key Commonwealth information systems supporting human resource and payroll activities and the risks created when they are out of sync, while giving the agencies more tools to ensure their accuracy. The majority of state agencies use these systems, which are maintained by three central agencies: the Retirement System, the Department of Accounts (Accounts), and the Department of Human Resource Management (Human Resource Management).

This comment to management focuses on the responsibilities of these central agencies and those state agencies using these systems to manage member data. However, many of the issues surrounding the management of member data discussed below are relevant to other participating employers within the context of their operational environments. Therefore, all employers participating in plans administered by the Retirement System should consider the information presented here.

### *Commonwealth Systems are Now Interfaced to myVRS Navigator to Share Member Data*

Under the new process, three Commonwealth information systems directly support member data and retirement contribution reporting:

- the Retirement System's *myVRS Navigator*,
- Human Resource Management's Personnel Management Information System (PMIS); and
- Account's Commonwealth Integrated Payroll and Personnel System (CIPPS).



All three systems now electronically share certain data elements with one another, which were previously independently keyed into the Retirement System's legacy system. These data elements support the calculation and payment of retirement contributions monthly; and serve as the foundation for the actuarially determined pension liabilities for the retirement plans managed by the Retirement System.

Specifically, PMIS interfaces daily with *myVRS Navigator* and CIPPS, passing on member data elements relevant to each system, such as position, hire date, salary, and birthdate. *myVRS Navigator* uses the data to apply service credit to member accounts and calculate the expected monthly retirement contributions for the individual member and the agency as a whole. *myVRS Navigator* generates a monthly billing file containing the calculated monthly retirement contribution data. CIPPS in turn generates a set of reconciliation reports for each agency based on the *myVRS Navigator* file and payroll calculations driven by the data interfaced from PMIS. Based on the resolution of these reconciliations, Accounts will make adjustment payments for instances where under or over payments have occurred.

Because of the direct linkage of critical fields between the three systems, each agency must ensure they enter all required fields in PMIS, so that the data pushed to the other systems is accurate. The importance of accurately capturing member data within PMIS has elevated the significance of PMIS in the day-to-day management of member data housed in *myVRS Navigator* as well as payroll related data housed in CIPPS. It has also expanded the need for agencies' human resource staff to participate in the reconciliation process between the three systems.

#### *Responsibility for the Accuracy of Employee/Member Data has Shifted*

In the past, agencies submitted forms to the Retirement System who would in turn update the member data within the Retirement System's legacy system. With the interfacing of PMIS, *myVRS Navigator*, and CIPPS, the Retirement System no longer holds the source documentation for changes to agency and member data; and instead it resides with the agency. Therefore, to ensure the accuracy of member data and their retirement contributions, the agency must ensure the three systems remain in-sync, by promptly updating information, especially in PMIS, and thoroughly reconciling data between all three systems.

Commonwealth policies require each agency to confirm Retirement System contributions monthly through a "snapshot" of the agency's expected contribution in total and by member, based on the data in *myVRS Navigator* at the time of the "snapshot." This confirmation becomes the official basis for the billing of retirement contributions and the payable due from the agency.

As the three systems share the data elements that are the basis for the retirement contribution calculation, confirming the contribution "snapshot" without researching any existing variances can cause errors in members' retirement related data. It can also lead to an agency under or overpaying retirement contributions to the Retirement System creating complications when a member retires.

### *Importance of the Member Data to Individual Agencies is Changing*

Further, in the past the actuarially determined liability resulting from an agency's participation in the retirement plans administered by the Retirement System, were reported in the footnotes of the Retirement System and Commonwealth's Comprehensive Annual Financial Reports. Beginning in fiscal year 2015, due to the implementation of Governmental Accounting Standards Board's (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, that liability will be reported in the Commonwealth's basic financial statements, as well as in the financial statements of any individual agencies who issue them.

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*Beginning in fiscal year 2015, pension liabilities will be reported in the Commonwealth's basic financial statements as well as in the financial statements of any individual agencies who issue them.*

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Our work at the agency level for fiscal year 2014 did not indicate any materially significant discrepancies that would affect the accuracy of the actuarially determined liability. We did not audit every agency; however, for the agencies we audited, we did observe some issues with:

- the timeliness and thoroughness of investigation by the agencies of errors identified by the reconciliations between the three systems,
- the timeliness of the "snapshot" confirmation,
- the accuracy of member data between the three systems, and
- in a few minor instances, the accuracy of the member data itself.

These observations could place the Retirement System, the Commonwealth, and its agencies at risk from a financial reporting perspective, if observed more frequently. It is imperative that each agency understand the importance of reconciling and confirming retirement contributions and promptly addressing exceptions between the member data stored in PMIS, *myVRS Navigator*, and CIPPS.

### *Guidance, Training and Tools Exist, but are Being Enhanced*

Since 2012, the Retirement System and Accounts together have published guidance in their respective regular employer communications, offered training, and conducted outreach to state agencies to guide them in the data entry, reconciliation, and contribution confirmation processes. Depending on the activity, agencies have different resources available to them as reflected below and on the following page.

<p>Agency Specific Processing Questions</p>	<ul style="list-style-type: none"> <li>•VRS Employer Support Team <a href="http://www.varetire.org/employers/support/employer-support-team.asp">http://www.varetire.org/employers/support/employer-support-team.asp</a></li> <li>•DOA Payroll Operations <a href="http://www.doa.virginia.gov/Payroll/Payroll_Main.cfm">http://www.doa.virginia.gov/Payroll/Payroll_Main.cfm</a></li> </ul>
<p>Navigation and Data Entry for myVRS Navigator</p>	<ul style="list-style-type: none"> <li>•VRS Employer Manual <a href="http://www.varetire.org/employers/manual/index.asp">http://www.varetire.org/employers/manual/index.asp</a></li> <li>•myVRS Publications <a href="http://www.varetire.org/publications/index.asp?ftype=myvrs">http://www.varetire.org/publications/index.asp?ftype=myvrs</a></li> <li>•Frequently Asked Questions about myVRS Navigator <a href="http://www.varetire.org/pdf/publications/vnav-faqs.pdf">http://www.varetire.org/pdf/publications/vnav-faqs.pdf</a></li> <li>•TRAINING: VRS University Online Courses <a href="http://www.varetire.org/employers/training/vrs-university.asp">http://www.varetire.org/employers/training/vrs-university.asp</a></li> </ul>
<p>Benefits Processing and Reconciliation</p>	<ul style="list-style-type: none"> <li>•VRS Employer Updates <a href="http://www.varetire.org/employers/update/index.asp">http://www.varetire.org/employers/update/index.asp</a></li> <li>•DOA Payroll Bulletins <a href="http://www.doa.virginia.gov/Payroll/Payroll_Bulletins/Payroll_Bulletins_Main.cfm">http://www.doa.virginia.gov/Payroll/Payroll_Bulletins/Payroll_Bulletins_Main.cfm</a></li> <li>•TRAINING: DOA Payroll Operations <a href="http://www.doa.virginia.gov/Payroll/Training/CIPPS_Intro_Training/CIPPS_Training_Manual.cfm">http://www.doa.virginia.gov/Payroll/Training/CIPPS_Intro_Training/CIPPS_Training_Manual.cfm</a></li> <li>•TRAINING: VRS University Online Courses <a href="http://www.varetire.org/employers/training/vrs-university.asp">http://www.varetire.org/employers/training/vrs-university.asp</a></li> </ul>
<p>Daily and Monthly Reconciliation Tools</p>	<ul style="list-style-type: none"> <li>•Benefits Processing Reports Appendix <a href="http://www.doa.virginia.gov/Payroll/Training/CIPPS_Intro_Training/CIPPS_Training_Manual.cfm">http://www.doa.virginia.gov/Payroll/Training/CIPPS_Intro_Training/CIPPS_Training_Manual.cfm</a></li> <li>•Calculation Spreadsheets: VRS Automated Recon Spreadsheet <a href="http://www.doa.virginia.gov/Payroll/Forms/Payroll_Forms_Main.cfm">http://www.doa.virginia.gov/Payroll/Forms/Payroll_Forms_Main.cfm</a></li> <li>•PMIS to CIPPS Update Crosswalk <a href="http://www.doa.virginia.gov/Payroll/Forms/Payroll_Forms_Main.cfm">http://www.doa.virginia.gov/Payroll/Forms/Payroll_Forms_Main.cfm</a></li> </ul>

Accounts’ periodic “Payroll Bulletin” and the Retirement System’s monthly “Employer Update” currently provide the best guidance for ensuring the member data remains in-sync between the three systems; and that the reconciliations and confirmations are performed properly. While the guidance exists, because it is separated into different publications, it is more challenging for employers to locate and follow.

The Retirement System is in the process of publishing additional sections to its employer manual that will consolidate the guidance provided in their Employer Updates into one document. They expect to finalize their updates by the end of January 2015. Likewise, Accounts is working towards consolidating their guidance in to the Commonwealth Accounting Policies and Procedures (CAPP) Manual, which they anticipate completing by the end of March 2015. The Retirement System and Accounts should give priority to this activity to ensure the guidance provided remains current, consistent and easily accessible. Accounts should also ensure they clarify the responsibilities of agencies using the Payroll Service Bureau or other payroll services within Accounts, as there are different expectations for these entities.

In the interim, several educational avenues exist. Through the VRS University Online Course system, the Retirement System provides web based training courses supporting *myVRS Navigator* and the contribution confirmation process, most specifically the course on “Contribution Confirmation and Payment Scheduling.” This course addresses the following relevant topics: Create Snapshot, Review Snapshot, Reconcile Snapshot, and Confirm Snapshot, and is available for all participating employers. Additionally, Accounts offered joint in-person training session with the Retirement System for agency human resource and payroll staff. Accounts is uncertain when they will offer this in person training again; however, the slides are available on Accounts’ website, as referenced above. While not currently scheduled, Accounts and the Retirement System should offer similar sessions in the future for new human resource and payroll staff at the user agencies.

Finally, Accounts, Human Resource Management and the Retirement System have recently initiated monthly status meetings with each other. These meetings are designed to ensure Accounts, Human Resource Management, and the Retirement System remain aware of existing and emerging agency concerns regarding these processes. Through the meetings Accounts, Human Resource Management and the Retirement System plan to expand and enhance the guidance and tools cited above to better support the efficient and effective execution of these processes. We encourage the continued use of this meeting venue to ensure communications with agencies remain consistent and cohesive regarding the processes and tools available. In addition, Human Resource Management should consider how their communications with human resource staff at the individual agencies and training can be expanded to highlight the importance of their role in these processes.

#### *Prioritization Should be Given to Accurately Manage Member Data by all Agencies*

While the new data interfaces and reconciliations developed by Accounts, Human Resource Management, and the Retirement System provide tools to more efficiently manage member data, they have also highlighted the interdependency of the member data maintained in CIPPS, PMIS, and *myVRS Navigator* and the risks created when they are out of sync. Most notably, the relevance of PMIS in relation to the processing of payroll and retirement contributions has grown tremendously, changing the focus of timing for data entry into this system.

The new processes require ongoing coordination and communication between each agency’s human resource department and the corresponding payroll department. Each agency must ensure their respective departments sufficiently prioritize maintaining the accuracy and integrity of member data. By doing so in the long term, agencies should realize many efficiencies in the management of member data. However, the path to realize those efficiencies may take time until the new processes are fully adopted within each agency and the reconciliation exceptions, which have developed over time, are fully addressed.

For example, prior to the implementation of *myVRS Navigator*, the Retirement System directly keyed data into their legacy system. Only a few key fields had to be entered in PMIS timely to support payroll processing, the remaining fields could wait. With the implementation of *myVRS Navigator*, PMIS now serves as the initial system of record for numerous critical data elements

electronically transferred to CIPPS and *myVRS Navigator*. As a result, each human resource department must ensure they promptly enter all of the required data elements into PMIS to support accurate and timely retirement contributions and payroll processing.

To help agencies ensure the integrity and accuracy of member data, Human Resource Management should develop reports or better highlight the availability of existing reports which identify key data fields missing in PMIS. By ensuring the initial system of record for the member data is accurate, and updated promptly with changes, many of the reconciliation exceptions currently being identified between the three systems could be eliminated.

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*Each agency must ensure they have adequate policies and procedures developed to support the investigation of interfacing errors between the three systems and the confirmation of the monthly “snapshot.”*

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Further, each agency must ensure they have adequate policies and procedures developed to support the investigation of interface errors between the three systems, as well as the confirmation of the monthly “snapshot.” While Accounts and the Retirement System have developed specific reconciliation reports and tools to support these processes, the unique nature of each agency in size and structure prohibits them from developing a singular approach for executing them.

Each agency needs to consider the expectations laid out in the guidance provided by Accounts and the Retirement System and ensure they have sufficient policies and procedures in place to meet these expectations. Most importantly, agencies must ensure they promptly address the reconciliation of exceptions between *myVRS Navigator* and PMIS, *myVRS Navigator* and CIPPS, and PMIS and CIPPS. Doing so will help to ensure the contribution calculations, payroll withholdings, and contribution payments are accurate.

### *Monthly Reporting Deadlines Should be Enforced*

To emphasize the importance of all of these processes, the Retirement System should begin enforcing the monthly deadline for the retirement contribution “snapshot” certification. The Retirement System will only send the monthly billing file to Accounts after all of the CIPPS user agencies certify their monthly “snapshot.” Enforcing the deadline will allow Accounts to complete the necessary steps to ensure timely and accurate adjustments to payments of retirement contributions previously submitted on behalf of the CIPPS user agencies. By completing the pre-certification reconciliations with the PMIS systems, and timely certification of the “snapshot”, individual agencies will reduce the number of reconciliation exceptions to be resolved, decreasing their administrative efforts and improving data accuracy. Likewise, the Retirement System will realize even greater accuracy and integrity of the data supporting contribution reporting and actuarial calculations.

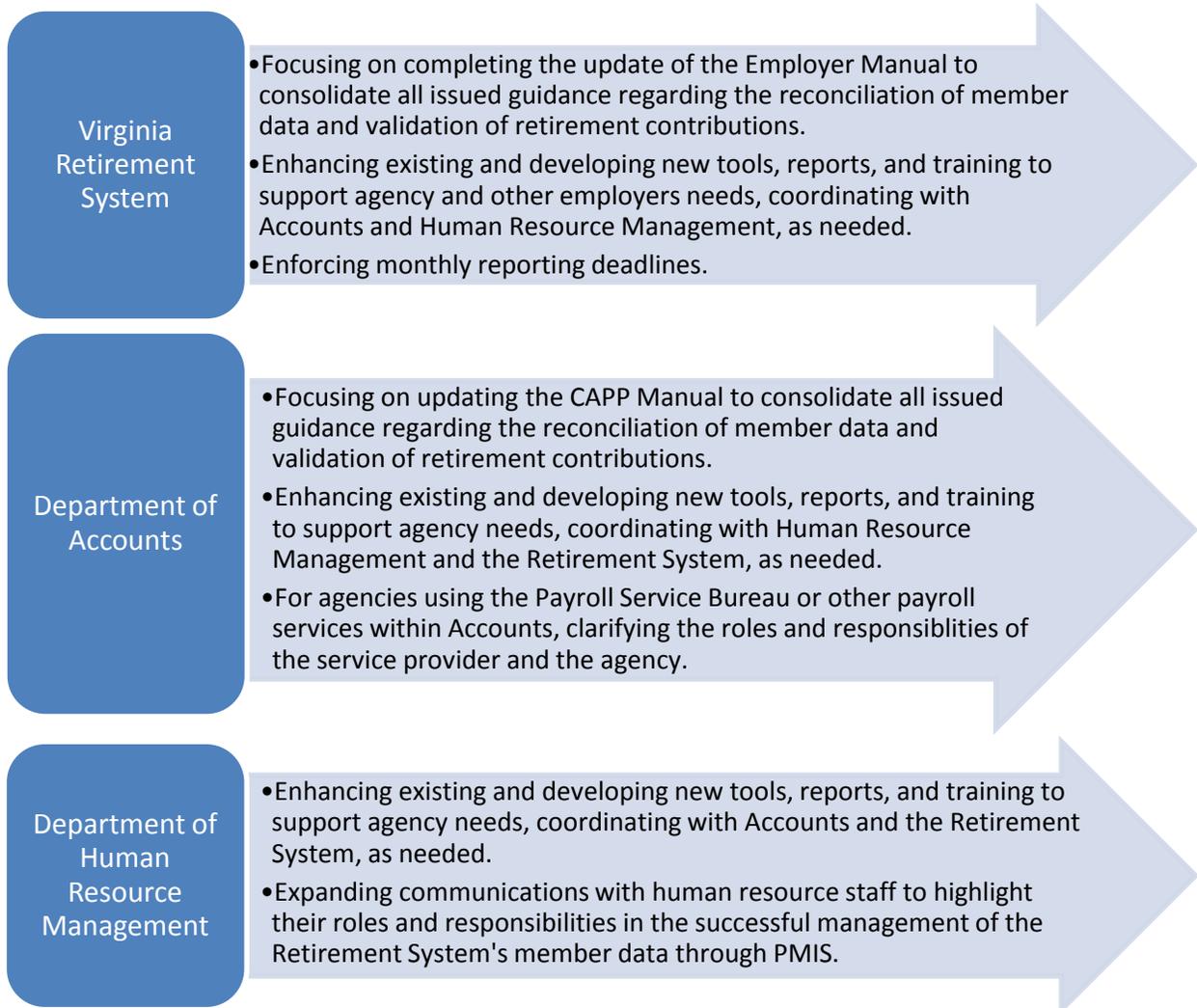
### *All Participating Employers Should Remain Diligent in Managing Member Data*

This comment to management focuses specifically on state agencies who use PMIS and CIPPS to manage their human resource and payroll functions. However, given the ramifications of GASB

Statement No. 68, all employers participating in the plans administered the Retirement System should remain cognizant of their role in ensuring the accuracy of member data and retirement contributions submitted to the Retirement System. The Retirement System, likewise, should ensure they continue to provide sufficient guidance and enforce reporting expectations for these employers.

As reflected above, for the Commonwealth, the efficient and effective management of member data requires the coordinated effort of all three central agencies as well as each individual agency on an ongoing basis. This comment to management highlights the importance of these efforts and the impact they have on each organization. To ensure each organization appreciates the risk and focuses the appropriate resources on the management of member data, we summarize below and on the following page their respective responsibilities moving forward.

### Key Actions for Maintaining and Reporting Member Data Moving Forward



## Key Actions for Maintaining and Reporting Member Data Moving Forward

### Individual Agencies

- Developing internal policies and procedures to promptly execute the data entry, reconciliation and certification processes in accordance with central agency guidance within the constraints of their organization.
- For agencies using a payroll service provider, clarifying the roles and responsibilities of the agency and the service provider.
- Ensuring all critical fields are promptly updated in PMIS.
- Ensuring human resource and payroll departments are fully engaged in supporting these processes and adequately communicate with each other.

## FINDINGS AND RECOMMENDATIONS

### **Improve System Security for the Time, Attendance, and Leave System**

In 2012 the Department of Human Resource Management (Human Resource Management) designed and implemented the Time, Attendance, and Leave system (TAL). The TAL system is utilized by multiple agencies and thousands of end users across the Commonwealth. As the system owner, Human Resource Management must maintain compliance with the Commonwealth's Information Security Standard, SEC501-08 (Security Standard), and industry best practices.

The Security Standard requires implementing controls to provide protection of, and mitigate risks to information systems and data. The specific controls required are dependent on the system and data sensitivity classification. The Security Standard defines sensitive data as any data of which the compromise with respect to confidentiality, integrity, and/or availability could have a material adverse effect on Commonwealth of Virginia interests, the conduct of agency programs, or the privacy to which individuals are entitled. Data sensitivity is directly proportional to the materiality of a compromise of the data with respect to these criteria.

Human Resource Management classifies TAL as a non-sensitive system primarily due to TAL not containing confidential data. As a result, Human Resource Management has not implemented all security controls required by the Security Standard for a sensitive system. Management should consider reclassifying TAL as a sensitive system in regards to integrity and availability. Reclassifying TAL as a sensitive system will require Human Resource Management to dedicate additional resources to implement added controls and monitoring.

Our review of TAL was based on TAL being reclassified as a sensitive system. We noted several areas requiring attention that we have communicated in detail to management in a separate document marked Freedom of Information Act Except under Section 2.2-3705.2 of the Code of Virginia due to their sensitivity and description of security controls.

### **Improve Controls over the Personnel Management Information System**

Human Resource Management is the system owner of the Commonwealth's Personnel Management Information System (PMIS). PMIS contains sensitive data, such as employee and benefits records of active and separated Commonwealth of Virginia employees. As the system owner, Human Resource Management must maintain compliance with information security policies and standards in all IT system activities as defined in section 2.7 of the Security Standard.

The Security Standard requires implementing specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability. Our review also compared the established PMIS policies and controls to other Commonwealth of Virginia information systems that are centrally managed, but used throughout the Commonwealth by other agencies. We identified internal control weaknesses, and opportunities for improvement based on best practices, that were communicated

to management in a separate document marked Freedom of Information Act (FOIA) Exempt under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

Human Resource Management has already taken action to address one of the weaknesses, and should devote the necessary resources to address the remaining recommendations. Additionally, Human Resource Management should obtain exceptions from the Chief Information Security Officer of the Commonwealth for any requirements of the Security Standard that are unable to be implemented due to the legacy nature of PMIS.

## AGENCY HIGHLIGHTS

The Department of Human Resource Management (Human Resource Management) administers the Commonwealth's Personnel Act, health insurance plans for state and local employees, 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 work force and provides a listing of state employment opportunities.

The Office of Contracts and Finance (Contracts and Finance) manages all accounting, finance, and procurement activities for Human Resource Management. Contracts and Finance also provides underwriting oversight for the Office of Health Benefits, which administers the health insurance and related benefits.

### **Health Insurance Fund**

The Office of Health Benefits administers the comprehensive health benefits and long-term care programs for state employees, state retirees, and their dependents. It also provides health benefits and long-term care programs to local governments and school jurisdiction employees, dependents and retirees through The Local Choice program.

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 and The Local Choice health plan. Additionally, Kaiser Foundation Health Plan of the Mid-Atlantic States is contracted to administer the consumer driven health plan. AON Consulting, Inc. provides services to evaluate the actuarial liabilities and reserve requirements of the self-funded health benefits program and the reserve requirements of The Local Choice program.

The Comprehensive Annual Financial Report of the Commonwealth presents the activity of the self-insured health benefits program in two funds administered by Human Resource Management. The annual report presents The Local Choice activity as an Enterprise Fund and the State Health Insurance activity as an Internal Service Fund.

### **Workers' Compensation Fund**

The Office of Workers' Compensation provides direction to state agencies on workers' compensation, workplace safety and loss control, and return to work programs. The Office 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.

The Commonwealth operates a self-insured workers' compensation program administered by Human Resource Management. The Comprehensive Annual Financial Report of the Commonwealth shows the program as a component of the Risk Management Internal Service Fund. Human Resource Management contracts with Managed Care Innovations (MCI) to manage cost containment and claims administration. The Office also contracts with Oliver Wyman to provide an annual actuarial analysis of the Workers' Compensation Fund. This analysis identifies funding needs and required reserves to meet short and long-term claim obligations.

### **Information Systems**

Human Resource Management's Office of Information Technology (ITECH) manages the Commonwealth's Personnel Management Information System (PMIS). PMIS consists of a database that is used for processing and managing personnel, compensation, and health benefits data. The Benefits Eligibility System (BES) is a subsystem of PMIS which maintains health benefits records on all eligible employees, employee dependents, and participating retirees.

In 2012 Human Resource Management began developing a Time, Attendance and Leave System (TAL). TAL allows employees to electronically record time worked, submit leave requests, and record leave used. Managers are able to electronically approve time worked and leave submissions. The pilot agencies began using TAL in April 2013 with additional agencies going on-board throughout 2013 and 2014. Currently 27 agencies with over 10,000 end users are using TAL.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 11, 2014

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable John C. Watkins  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Department of Human Resource Management**, as defined in the Audit Scope and Methodology sections below for the year ended June 30, 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 the Department of Human Resource Management's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2014. These transactions include the Health Insurance Fund, the Local Choice Health Care Fund, and the Worker's Compensation Fund. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and other information they report to the Department of Accounts, reviewed the adequacy of their internal controls, and tested for compliance with applicable laws, regulations, and contracts and grant agreements.

## **Audit Scope and Methodology**

Management of the Department of Human Resource 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, 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 significance 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 procurement
- Contract management
- Revenues
- Claims expenses
- Actuary reporting
- Financial reporting
- Information systems security

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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, re-performance of automated processes, inspection of documents, records, and contracts, reconciliations, and observation of the Department’s operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses. Where applicable, we compared an agency’s policies to best practices and Commonwealth standards.

### **Conclusions**

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in other information reported to the Department of Accounts for inclusion in the Comprehensive Annual Financial Report for the Commonwealth of Virginia.

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

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

We discussed this report with management on February 4, 2015. Management’s response to the findings identified in our audit is included in the section titled “Agency Response.” We did not audit management’s response 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.

AUDITOR OF PUBLIC ACCOUNTS

JMR/clj



# COMMONWEALTH of VIRGINIA

SARA REDDING WILSON  
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February 11, 2015

Martha S. Mavredes, CPA  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Dear Ms. Mavredes:

We have reviewed your report on our audit for the year ending June 30, 2014. We appreciate the recommendations and have responded to specific items under a separate detailed response.

The Time, Attendance, and Leave System (TAL) was developed by DHRM. DHRM, as the business owner, classified TAL as a “non-sensitive” system in accordance with the SEC 501-08. The audit recommends classifying TAL as a sensitive system. We disagree with that recommendation.

The recommendation to improve the internal controls around the Personnel Management Information System (PMIS) has been initiated. DHRM has already requested changes from Virginia Information Technologies Agency (VITA) and executed other changes within our purview. The upcoming change of platform for PMIS will mitigate the bulk of this recommendation.

We appreciate your team’s efforts and constructive feedback throughout this process.

Sincere Regards,

A handwritten signature in blue ink that reads 'Sara R. Wilson'.

Sara R. Wilson  
Director, Department of Human Resource Management

*An Equal Opportunity Employer*

## AGENCY OFFICIALS

### DEPARTMENT OF HUMAN RESOURCE MANAGEMENT

Sara Redding Wilson, Director

Dan Hinderliter, Director  
Office of Contracts and Finance

George Gibbs, CFO  
Office of Contracts and Finance

Belchior Mira, Director  
Office of Information Technology