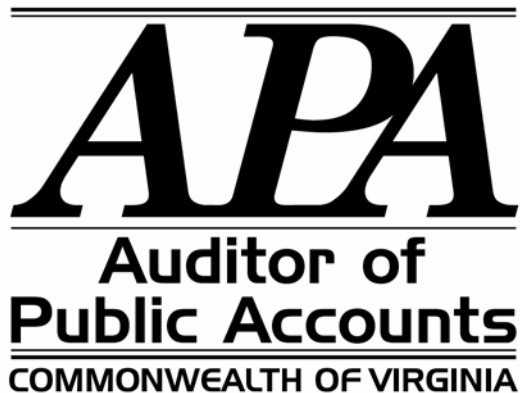


**VIRGINIA RETIREMENT SYSTEM  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2004**



## AUDIT SUMMARY

Our audit of the Virginia Retirement System for the year ended June 30, 2004, found:

- the financial statements are presented fairly in all material respects;
- no instances of noncompliance with material laws and regulations that are required to be reported;
- one matter we consider a reportable condition; however, we do not consider this matter to be a material weakness in internal control; and,
- adequate implementation of corrective action on prior audit findings.

Our audit finding includes the following recommendation:

- Remove Unnecessary RIMS Users Access Timely.

We discuss this issue in the section entitled, “Internal Control Finding and Recommendation.”

The Virginia Retirement System publishes an annual report that contains their financial statements and required disclosures. The System expects to publish their report by late December 2004.

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# Commonwealth of Virginia

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

October 26, 2004

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission

Board of Trustees  
Virginia Retirement System

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the basic financial statements of the **Virginia Retirement System** as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated October 26, 2004. Our report on the basic financial statements is contained in the *Comprehensive Annual Financial Report* issued by the Virginia Retirement System. We conducted our 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.

### Compliance

As part of obtaining reasonable assurance about whether the Virginia Retirement System financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Virginia Retirement System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial

reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Virginia Retirement System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition, entitled "Remove Unnecessary RIMS Access Timely" is described in the section titled "Internal Control Finding and Recommendation".

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

#### Status of Prior Findings

The Virginia Retirement System has taken adequate corrective action with respect to audit findings reported in the prior year.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Trustees and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 17, 2004.

AUDITOR OF PUBLIC ACCOUNTS

KKH:whb  
whb:42

## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### Remove Unnecessary RIMS User Access Timely

We found fourteen users who have inappropriate access to the Retirement Information Management System (RIMS). Two of these users should have no access to RIMS while the other twelve users have inappropriate access to critical functions such as changing social security numbers and bank routing numbers.

Inappropriate access has resulted from supervisors granting temporary elevated access to employees to help meet staff shortfalls and then not downgrading access when the problem is resolved. Additionally this occurs when an employee changes duties or function within an area, but they are allowed to keep their old access levels. As a result users have access to functions that are not essential or may be incompatible to their job responsibilities, compromising internal controls.

We recommend that the Virginia Retirement System change their policy to require supervisors to tell the RIMS Security Manager if the change in access is temporary or permanent. The Security Manager should track all temporary change requests, and supervisors should tell the Security Manager of changes. The Security Manager should periodically review job duties or other assignment to determine if access is appropriate.



W. Forrest Matthews, Jr.  
Director

**MEMORANDUM**

TO: Walter J. Kucharski  
Auditor of Public Accounts

FROM: W. Forrest Matthews, Jr.  
Director

DATE: November 12, 2004

SUBJECT: Response to APA's - VRS Report on Audit for the Year Ended June 30, 2004

**Finding - Remove Unnecessary RIMS User Access Timely:**

According to the finding, there were fourteen users who had inappropriate access to the Retirement Information management System (RIMS). Two of these users should have had no access to RIMS and the other twelve users had inappropriate access to critical functions such as modifying socials security numbers and bank routing numbers. The finding noted that the inappropriate access resulted from a supervisor granting temporary elevated access to an employee and not requesting a downgrade when its was not longer needed. Other instances related to access not being changed to reflect a change in an employee's job functions. Both of these situations would allow users to have access to functions that were not essential and which may not be compatible with their job responsibilities. The recommendation was that VRS modify its policy to require supervisors to notify the RIMS Security Manager upon cessation of user's need for temporary elevated access or when an employee's job functions change.

**VRS Response:**

We have reviewed each of the access situations cited above. We found that 6 of the instances noted had been corrected during the VRS semi-annual security review but which should have been corrected earlier, 1 instance where the access appeared to be inappropriate but which was for inquiry only, 2 instances where the access appeared to be unnecessary but which were in place to provide a back-up for the primary user, and 5 instances where the security was inappropriate but which were corrected by VRS after being identified during the auditor's review.

The above recommendation is addressed in the existing policies and procedures for the agency as set forth in the VRS Information Technology Security Policy, Section 2.5 - Changes in Job

11/12/2004

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Functions and Section 2.5.1 - Job Function Change Procedures. In this policy, both staff and their applicable VRS management are responsible for timely changes in access due to job function changes. In addition, as part of the agency's active security awareness program, all staff and management are sent an email reminder each month that access changes must occur timely as job functions change. Given this, VRS management will address this recommendation individually with the staff and management involved.

If you have any questions concerning the above item, please call me at 344-3120.

c: VRS Board of Trustees



VIRGINIA RETIREMENT SYSTEM  
Richmond, Virginia

BOARD MEMBERS

As of June 30, 2004

Alfonso I. Samper, Chairman

Paul W. Timmreck, Vice Chairman

|                         |                           |
|-------------------------|---------------------------|
| John M. Albertine, Ph.D | Edwin T. Burton III, Ph.D |
| Robert C. CarlsonJ.     | Douglas Conway, Jr.       |
| Judith Ewell, Ph.D      | Vernard W. Henley         |

Raymond B. Wallace, Jr.

DIRECTOR

W. Forrest Matthews, Jr.

